DOCUMENT RESUME

ED 397 760 HE 029 361

AUTHOR	Denman, Paula N.
TITLE	Department of Education: Status of Actions To Improve the Management of Student Financial Aid. Report to the Ranking Minority Member, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate.
INSTITUTION	General Accounting Office, Washington, DC. Health, Education, and Human Services Div.
REPORT NO	GAO/HEHS-96-143
PUB DATE	Jul 96
NOTE	109p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-6015 (first copy free, additional copies $2 each; 100 or more copies, 25 percent discount).
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC05 Plus Postage.
DESCRIPTORS	Change Strategies; Costs; *Efficiency; *Federal Aid; *Federal Programs; Higher Education; Information Needs; *Loan Repayment; Problem Solving; *Program Administration; Program Development; Public Agencies; *Student Financial Aid; Student Loan Programs
IDENTIFIERS	Cost Containment; Debt (Financial); *Department of Education

ABSTRACT

This evaluative report by the General Accounting Office (GAO) summarizes Department of Education actions made through April 1996 in response to 205 recommendations to improve the management of federal student financial aid programs. The report concludes that the Department had completed actions or had actions in progress or planned for 186 of the recommendations, most with the potential to remedy underlying problems. Actions for about 10 percent of the 186 recommendations are seen as failing to remedy underlying problems. The report notes that, for the remaining 19 recommendations, the Department took no action, principally because the Department disagreed with the recommendation, because a previous action addressed the recommendation, or because the Department did not have authority to implement the recommendation. It was also found that some corrective actions resulted in major improvements. Appendixes, which form the bulk of the document, detail the specific recommendations made by the Senate's Permanent Subcommittee on Investigations, the Department's Office of the Inspector General, and the Health, Education, and Human Services Division of the GAO, the Department's actions, and the conclusions of the GAO about the completion and effectiveness of the actions taken, and the Department of Education's response. (MSE)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

United States General Accounting Office

GAO

Report to the Ranking Minority Member, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

July 1996

DEPARTMENT OF EDUCATION

Status of Actions to Improve the Management of Student Financial Aid

ED 397 760

HE 029 361

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

BEST COPY AVAILABLE

75 years 1921 1996

GAO/HEHS-96-143

GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-271028

July 12, 1996

The Honorable Sam Nunn
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

Dear Senator Nunn:

Each year, through the Department of Education's student financial aid programs, students have access to billions of dollars in loans and grants for postsecondary education. As reported by the Department, total student financial aid under title IV of the Higher Education Act of 1965 (HEA), as amended, for students during academic year 1994-95 was $32.7 billion. The largest source of this aid (70 percent) was the Federal Family Education Loan Program (FFELP),[1] which provided 6.2 million loans totaling almost $23 billion. The second largest source was the Federal Pell Grant Program, which provided 3.7 million grants totaling $5.6 billion.

Concerns have been expressed over the years about fraud and abuse in these student aid programs, especially FFELP and the Pell Grant Program. Concerns have also been expressed about the inadequacy of the Department's procedures for gatekeeping—determining which schools can participate in these programs—and program review.

In response to these concerns, in 1990 the Senate's Permanent Subcommittee on Investigations (PSI) held hearings and, in 1991, issued a report, which included 29 recommendations to the Department.[2] In 1993 and 1995, PSI held related hearings concerning proprietary schools' (for-profit trade schools) alleged fraud and abuse under the Pell Grant Program. Between April 1991 and July 1995, the Department's Office of the Inspector General (OIG) also issued reports on topics such as the large number of FFELP defaults and discrepancies in schools' reporting on their use of Pell grant funds. In these reports, OIG made 135 recommendations to the Department. During the same period, we reported on problems with the Department's administration of student financial aid programs and made 41 recommendations.

[1]FFELP was formerly called the Guaranteed and Stafford Student Loan Programs.

[2]Abuses in Federal Student Aid Programs, U.S. Senate, PSI, Committee on Governmental Affairs, S. Report 102-58 (Washington, D.C.: 1991).

In total, PSI, OIG, and we made 205 recommendations to the Department. In this report, we are responding to your request to determine (1) the status of the Department's actions in response to these recommendations, including whether the Department's actions address the recommendations, and (2) the reasons the Department gave for not acting on some recommendations.

To respond to your request, we examined relevant Department records and interviewed PSI and OIG staff and responsible Department officials. For each PSI and OIG recommendation, we asked the PSI or OIG staff who did the investigative or audit work for the status of the corrective action, including whether the action addresses the recommendation.[3] To determine the status of our recommendations, we reviewed Department records and talked to responsible Department officials. We also obtained the reasons for the Department's inaction on recommendations from responsible Department officials and our review of Department records.

We reviewed the Department's actions through April 1996 and conducted our review from October 1995 to June 1996 in accordance with generally accepted government auditing standards. See appendix I for details on our scope and methodology.

Results in Brief

The Department has completed actions or has actions in progress or planned for 186 (91 percent) of the 205 recommendations made to improve its management of federal student financial aid. Most of these actions have the potential to remedy problems underlying the recommendations. For example, in addressing recommendations to improve the accuracy and completeness of student aid data, the Department began working more closely with guaranty agencies[4] to (1) understand and resolve some of the data errors and (2) implement better edit checks in its newly developed National Student Loan Data System (NSLDS).

The availability of more accurate data should help ensure that the Department has the most current data for monitoring students' loan indebtedness, guaranteeing compliance with federal requirements, and managing student financial aid.

[3]The phrase "action addresses the recommendation" means that the action has the potential to remedy the reported problem. Neither PSI, OIG, nor we determined whether the action actually solved the problem.

[4]Guaranty agencies are agencies that serve as intermediaries between the Department and lenders, insure the loans made by lenders to students, and ensure that lenders and schools meet FFELP requirements.

Some of the Department's actions, for about 10 percent of the 186 recommendations, however, generally will not remedy the problems, according to staff of the entity that made the recommendations. For example, PSI recommended that the Department revise limits on the amount of federal student aid available for students attending proprietary schools. PSI found that proprietary schools often receive federal funds for inflated and exorbitant tuition, when the same, or better, education and training was available elsewhere at much lower cost. Although the Department has not implemented this recommendation, it plans to consider it when developing its legislative proposal for reauthorizing HEA in 1997.

For the remaining 19 (9 percent) of the 205 recommendations, the Department took no actions. According to Department officials, the principal reason the Department did not act was that it disagreed with the recommendations. Other reasons, given by Department officials, include the Department's belief that (1) previous actions addressed the recommendations and (2) it did not have the authority to implement the recommendations. For two recommendations, the Department provided no reason.

The following illustrates an instance in which the Department disagreed with a recommendation. OIG recommended that the Department collect and compile schools' performance data, such as job placement rates, from accrediting agencies.[5] The Department could use this information to help determine the overall success of title IV-funded job training. The Department disagreed, (1) saying this would impose a considerable burden on accrediting agencies and (2) citing limitations on the methodology for calculating these measures.

Background

The Department administers programs for student financial aid under title IV of HEA. In prior years, PSI, OIG, and we found that the Department had historically mismanaged and poorly overseen these programs. In reports, PSI, OIG, and we identified many problems that varied in their significance. Many of these reports highlighted areas where the Department was not properly managing and administering its student aid programs. These problems were attributed to inadequate planning, inaccurate loan data, and weak internal controls.

[5]Managing for Results: Review of Performance-Based Systems at Selected Accrediting Agencies, Department of Education, ACN-06-30004 (Washington, D.C.: May 8, 1995).

We also identified FFELP as 1 of 17 federal programs that we considered to be "high risk" because it was especially vulnerable to waste, fraud, abuse, and mismanagement. Given the number of defaulted student loans, we concluded that the Department did not fully succeed in protecting the financial interest of the federal government and U.S. taxpayers.[6] In our 1995 high-risk series, we expanded the "high-risk" designation to include all student financial aid programs under title IV of HEA.[7]

Department Actions Generally Addressed Most Recommendations

In general, the Department has advanced significantly in initiating actions (completed, in progress, or planned) that addressed recommendations (see table 1).

Table 1: Status of Actions on 205 Recommendations Made to the Department, April 1991-July 1995 (as of April 1996)

	Status of actions				
Source	Completed	In progress	Planned	None taken	Total
PSI	14	7	3	5	29
OIG	85	31	7	12	135
GAO	22	15	2	2	41
Total	**121**	**53**	**12**	**19**	**205**

See appendix II for a list of PSI recommendations, appendix III for a list of OIG recommendations, and appendix IV for our recommendations. The status of the action appears for each recommendation.

The Department's actions have addressed most of the recommendations. According to the sources that made the recommendations—PSI, OIG, and us—of the 186 for which the Department has initiated actions, the actions have generally addressed 159 recommendations but have not addressed 19; for the remaining 8, PSI could not determine whether the actions addressed its recommendations because of the recency of the actions (see table 2).

[6] High-Risk Series: Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

[7] High-Risk Series: Student Financial Aid (GAO/HR-95-10, Feb. 1995).

Table 2: Department Actions Addressed 186 of 205 Recommendations

Source	Actions: Generally address	Actions: Generally do not address	Actions: Could not determine	Total
PSI	14	2	8	24
OIG	112	11	0	123
GAO	33	6	0	39
Total	**159**	**19**	**8**	**186**

Some Corrective Actions Resulted in Major Improvements

Some of the 159 actions that addressed recommendations have resulted in major changes, such as (1) strengthening gatekeeping procedures—for example, improving the eligibility and certification process—to ensure that the Department does not allow unscrupulous schools to participate in student aid programs; (2) implementing initiatives for better financial management, such as issuing an audit guide requiring lenders participating in FFELP to have an annual compliance audit by a nonfederal organization to better ensure the financial integrity of FFELP; and (3) beginning to implement NSLDS.

Although an assessment of whether changes resolved the problems underlying the recommendations is beyond the scope of this report, implementation of NSLDS illustrates actions that have yielded some improvements. For example, to address recommendations concerning NSLDS data, the Department has formed the NSLDS Data Integrity Insurance Group (DIIG). DIIG is charged with (1) identifying data anomalies, inconsistencies, and inaccuracies in NSLDS; (2) correcting and preventing data problems; and (3) working toward ensuring the accuracy, completeness, and timeliness of NSLDS data. As of October 1995, DIIG identified (1) several data inaccuracies that resulted in additional edits being added to NSLDS and (2) many omissions and inaccuracies in data supplied by schools to the Department's systems. Eliminating these data problems is a top DIIG priority.

The Department also formed an NSLDS project team tasked with reviewing alleged defaulters receiving subsequent loans. As of May 1996, for award year 1995-96, the project team, using data from NSLDS and the Department's student aid application system, identified 100,376 student aid applicants who should not have received federal student loans. The system showed that these applicants had previously defaulted on a loan.[8] If they did

[8]Federal law and regulations state that students who have defaulted on a loan may not receive another loan (unless they arrange to repay their defaulted loans).

receive subsequent loans, these borrowers could have received over $280 million in overpayments. This estimate is based on the Department's records, which show the average loan amount is about $2,800.

These checks and data analyses may screen out obvious errors and inconsistencies; however, they do not ensure that the remaining data are valid and accurate, which the usefulness of NSLDS data depends on. As a result, we, as well as OIG, believe that the Department has not adequately tested the accuracy and validity of loan data in NSLDS. The Department is currently working with a contractor to identify and verify critical data items in NSLDS.

Some Corrective Actions Will Not Remedy Problems

According to PSI, OIG, and our staff, 19 corrective actions generally did not address the recommendations, possibly allowing problems relating to important matters to continue. For example, PSI recommended that the Department revise limits on the amount of federal student aid available for students attending proprietary schools. PSI found that proprietary schools often received federal funds for overpriced tuition, when the same, or better, education and training was available and less costly elsewhere. PSI reported that in one case, a proprietary school student paid up to 38 times the tuition that other postsecondary schools charged, such as a local community college, for the same training. Although the Department has not yet implemented this recommendation, it plans to consider it when developing its legislative proposal for reauthorizing HEA in 1997.

In some instances, the Department's actions did not address OIG recommendations. For example, OIG determined that the Department has not addressed an important recommendation on the lender review process. In January 1994, as part of a review of guaranty agency and lender oversight procedures, OIG concluded that the lender review process needed many improvements. This included better targeting of agencies and lenders for review, which should minimize the financial risk associated with not selecting larger lenders for review.[9] Department regulations require guaranty agencies to biennially review the 10 largest lenders or those with loans equal to 2 percent of the agency's portfolio. The OIG recommended that the Department's Guaranty Agency and Lender Oversight Service (GLOS) ensure that guaranty agencies comply with this requirement as an element of overall program fiscal and managerial control.

[9]Review of the Performance of the Guaranteed Student Loan Branches With Student Financial Assistance Programs, Department of Education, ACN-04-20075 (Washington, D.C.: Jan. 28, 1994).

The Department said it issued additional guidance to guaranty agencies for meeting the requirement. The Department also stated that it allows them to substitute another lender for any 1 of its largest 10 or 1 with 2 percent of loans. These substitutions were granted in certain circumstances, such as to include a lender with a significant change in its loan volume or default rate. The Department did not indicate what actions GLOS would take to ensure reviews of the largest 10, or top 2 percent of, lenders that are not reviewed by guaranty agencies because of substitutions.

The Department Did Not Act on Some Recommendations Because It Believed No Action Was Needed

The Department did not act on 19 of the 205 recommendations. The reasons the Department gave for not acting appear in table 3. For 14 of the 19 recommendations, the Department believed no actions were needed because it (1) disagreed with the recommendation or (2) believed a previous action addressed the recommendation.

Table 3: Reasons the Department Provided for Not Acting on Recommendations

Reasons	Number
Disagreed with the recommendation	9
Believed previous action addressed the recommendation	5
Believed it lacked authority to implement the recommendation	2
Did not know the recommendation existed	1
Provided no reason	2
Total	**19**

The following are examples of some significant recommendations for which the Department took no actions:

- The Department said it disagreed with our recommendation that it study the feasibility of requiring guaranty agencies to standardize their FFELP loan accounting systems.[10] We reported that although each guaranty agency operates with the same basic program objectives and criteria, at least 4 of 10 we judgmentally selected for review were independently developing new loan information systems or upgrading their current systems. Such independent development efforts may not be an efficient

[10]Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AIMD-93-20, Mar. 16, 1993).

use of the Department's funds and may impair its ability to effectively oversee guaranty agency activity.

The Department, in disagreeing, said it believes that (1) requiring guaranty agencies to use a standard loan accounting system would not be feasible because some agencies are within state government units and must follow state accounting procedures and (2) implementing the recommendation would not be practical because of the large number of guaranty agencies. It did say that if the number of guaranty agencies were to be reduced to a more manageable level, it would pursue implementing standardized accounting systems. We still believe that a standardized accounting system would improve the Department's ability to oversee guaranty agency activity.

- The Department said it disagreed with an OIG recommendation that it collect and compile schools' performance data, such as job placement rates, from accrediting agencies. This information could be used by the Department to help determine the overall success of title IV-funded job training. The Department disagreed, (1) saying this would impose a considerable burden on accrediting agencies and (2) citing limitations on the methodology for calculating these measures.
- The Department said it believed previous action addressed a PSI recommendation that the Department better coordinate its gatekeeping activities with other government agencies. PSI reported, for example, that the Department had failed to systematically coordinate with the Department of Veterans Affairs (VA), even though VA has its own student aid program. Because the Department and VA inadequately coordinated their compliance activities, each Department was generally unaware of the other's initiation of an adverse action taken against a school, which could contribute to duplicative compliance activities as well as increased costs. PSI recommended that the Department seek the assistance of VA and the Department of Labor (Labor) in sharing mutually useful information, such as having the agencies alert each other when an adverse action is taken.

  The Department said that (1) in 1995, it had discussions with Labor on coordination efforts in which it determined that the structure of each Department's respective programs was sufficiently different that comparisons were not helpful; and (2) in the mid-1980s, it shared information about adverse actions with VA; however, this effort was discontinued in the late 1980s because it was not producing results. The Institutional Participation and Oversight Service expects to contact VA by December 1996 to determine whether it would be useful to reinstate a

modified information exchange that might prove to be more beneficial. As of April 1996, the Department had not developed initiatives to improve its coordination with VA and Labor.

Agency Comments and Our Evaluation

On June 24, 1996, the Department of Education provided us written comments on a draft of our report. (See app. V.) The Department agreed with our assessment of its actions to address 205 recommendations to improve the management of student financial aid programs (SFAP) made by PSI, OIG, and us. In its response, the Department identified improvements in key measurements that it attributed to changes made in managing SFAP as well as some specific accomplishments and ongoing initiatives it is taking regarding gatekeeping.

Regarding the issues identified in the report in which the Department disagreed with a recommendation, the Department believes that its justifications are supportable and fairly represented. The Department also said that it was impossible to make some of the recommended changes without changes in legislation, and several legislative actions that might address some of the open issues in the report are pending in the legislative process. The Department expects to continue to address open recommendations, as appropriate, during the next reauthorization of HEA.

The Department's staff also provided a number of technical comments and suggestions, which we incorporated as appropriate. In some of these comments, the Department highlighted actions it took after our April 1996 cutoff date. Time did not permit us to update actions taken after April 1996, in part, because PSI and OIG did not have an opportunity to evaluate them.

We are sending copies of this report to the Secretary of Education, appropriate congressional committees, and other interested parties. We also will make copies available to others on request.

If you have any questions about this report, please contact me or Joseph J. Eglin, Jr., Assistant Director, at (202) 512-7014. This report was prepared by Paula N. Denman, Evaluator-in-Charge. Other contributors are listed in appendix VI.

Sincerely yours,

Carlotta C. Joyner

Carlotta C. Joyner
Director, Education and
Employment Issues

Contents

Letter		1
Appendix I Scope and Methodology		18
Appendix II Status of Actions on PSI Recommendations		19
	Abuses in Federal Student Aid Programs, S. Report 102-58, 1991	19
Appendix III Status of Actions on OIG Recommendations		33
	Report on the Transitional Guaranty Agency's Role in Guaranty Agency Transition Strategy, ACN 05-40007, June 2, 1995	33
	Financial Statement Audit—U.S. Department of Education Federal Family Education Loan Program for the Years Ended September 30, 1994 and 1993, ACN 17-40302, May 31, 1995	34
	Managing for Results: Review of Performance-Based Systems at Selected Accrediting Agencies, ACN 06-30004, May 8, 1995	36
	Financial Statement Audit of the U.S. Department of Education Federal Direct Student Loan Program for the Year Ended Sept. 30, 1994, ACN 17-48320, March 17, 1995	38
	Inconsistent Institutional Pell Grant Reporting Results in Significant Expenditure Discrepancies, ACN 11-30001, September 26, 1994	41
	Ineligible Non-U.S. Citizens Received $70 Million in Pell Grants, ACN 11-40000, September 9, 1994	42
	Why Use Pell Grants for Instruction in English as a Second Language? Taxpayers Pay More and Students Get Less, ACN 09-40003, August 12, 1994	43
	Review of Performance of the Guaranteed Student Loan Branches Within Student Financial Assistance Programs, ACN 04-20075, January 27, 1994	44
	Effectiveness of the Regional Institutional Review Branches Monitoring of Institutions Participating in the Student Financial Assistance Programs, ACN 05-20075, December 21, 1993	54

The Secretary's Default Reduction Initiative—An Alternative Approach to Implementing Sanctions, MIR 93-07, September 14, 1993	66
ED Should Prohibit Conflicts of Interest Between Guaranty Agencies and Affiliated Organizations, MIR 93-02, March 15, 1993	68
Title IV Funding for Vocational Training Should Consider Labor Market Needs and Performance Standards, MIR 93-03, March 12, 1993	68
OPE's Lender and Guarantee Agency Oversight Function Should Focus More on Audit Follow-Up, ACN 11-20015, December 1, 1992	69
ED Needs to Change the Legislative Definition of Loans in Repayment, MIR 92-13, September 4, 1992	72
Loan Servicers for the Guaranteed Student Loan Programs (GSLP) Need to Be Better Controlled to Save ED Millions in GSLP Losses, MIR 92-12, August 19, 1992	73
Improving Documentation Requirements for Determining Eligibility for Student Financial Assistance Programs, MIR 92-11, July 29, 1992	74
Stricter Standards Needed for the Granting of Forbearances, MIR 92-10, June 30, 1992	75
Effectiveness of the Office of Postsecondary Education's Effort to Collect Perkins Loan Excess Cash, MIR 92-08, April 1, 1992	76
About $300 Million in Guaranteed Student Loans and Pell Grants Will Be Authorized for Students With Defaulted Loans for the 12 Months Ending June 30, 1992, MIR 92-07, March 19, 1992	77
Owners of Corporate Proprietary Schools Need to Be Held Personally Liable for Title IV Program Losses, MIR 92-06, March 16, 1992	78
ED Needs to Strengthen Student Loan Cure Procedures, MIR 92-05, March 13, 1992	79
The Office of Student Financial Assistance Did Not Assure That All Institutions Submitted Audit Reports or That It Recovered All Misspent Funds, ACN 11-00010, February 6, 1992	81
ED Should Act to Reduce Interest and Special Allowance Costs for Cancelled Student Loans, MIR 91-10, September 3, 1991	85
Improvements Needed to Strengthen Guarantee Agency School Reviews, MIR 91-09, June 19, 1991	86

Appendix IV Status of Actions on GAO Recommendations — 88

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995) — 88

Federal Family Education Loan Information System: Weak Computer Controls Increase Risk of Unauthorized Access to Sensitive Data (GAO/AIMD-95-117, June 12, 1995) — 89

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994) — 90

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994) — 92

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 9, 1993) — 96

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993) — 97

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AIMD-93-20, Mar. 16, 1993) — 98

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992) — 103

Appendix V Comments From the Department of Education — 104

Appendix VI Staff Acknowledgments — 107

Related GAO Products — 108

Tables

Table 1: Status of Actions on 205 Recommendations Made to the Department, April 1991-July 1995 — 4

Table 2: Department Actions Addressed 186 of 205 Recommendations 5
Table 3: Reasons the Department Provided for Not Acting on Recommendations 7

Abbreviations

ACD	audit clearance document
AFMS	Accounting and Financial Management Service
ARB	Audit Resolution Branch
CED	Compliance and Enforcement Division
DIIG	Data Integrity Insurance Group
DLSS	Direct Loan Servicing System
EDCAPS	Education Central Automated Processing System
ESL	English as a Second Language
FARS	Financial Accounting and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FCC	federal capital contribution
FDSLP	Federal Direct Student Loan Program
FFEL	Federal Family Education Loan
FFELP	Federal Family Education Loan Program
FMS	Financial Management Service
FOS	Field Operations Service
FPRDL	Final Program Review Determination Letter
FSMB	Federation of State Medical Boards
GLOS	Guaranty Agency and Lender Oversight Service
GLRB	Guarantor and Lender Review Branch
GPAS	General Performance Appraisal System
GSLB	Guaranteed Student Loan Branch
HEA	Higher Education Act
IDS	Institutional Data System
IMD	Institutional Monitoring Division
IPA	Independent Public Accountant
IPOS	Institutional Participation and Oversight Service
IRB	Institutional Review Branch
IRM	information resources management
LSARB	Lender and State Agency Review Branch
NCFMEA	National Committee on Foreign Medical Education and Accreditation
NSLDS	National Student Loan Data System
OGC	Office of General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget

OPE	Office of Postsecondary Education
PAS	primary accounting system
PDL	Program Determination Letter
PEPS	Postsecondary Education Participants System
PSI	Permanent Subcommittee on Investigations
PSS	Program Systems Service
ROD	Regional Operations Division
SFAP	Student Financial Aid Programs
SPRE	State Postsecondary Review Entity
SSA	Social Security Administration
TGA	Transitional Guaranty Agency
VA	Department of Veterans Affairs

Scope and Methodology

To achieve our objectives, we reviewed Senate Permanent Subcommittee on Investigations, Office of the Inspector General (Department of Education), and our prior reports, testimonies, and studies to identify past recommendations. We reviewed reports issued between April 1991 and July 1995 that focused on issues relating to fraud, abuse, mismanagement, and high-risk activities in the Department's implementation of federal student financial aid programs.

To determine the status of the Department's actions in response to PSI, OIG, and our recommendations, we (1) interviewed officials responsible for carrying out and overseeing the implementation of the recommendations and (2) reviewed the Department's Corrective Action Plans and supporting documentation and our documentation related to following up on our recommendations.

To determine the extent to which the Department's actions addressed the recommendations, we interviewed PSI, OIG, and our staff who developed the recommendations. For those instances where the Department did not act on recommendations, we interviewed those responsible to determine the reasons for inaction or obtained documentation of these reasons. We reviewed records of actions taken through April 1996, to the extent they were readily available, but did not validate information Department staff provided us on corrective actions taken.

We excluded from our review certain narrowly focused or interim reviews or analyses made by OIG. These include "Issues to Consider" papers and student financial aid action memorandums. We did not include these documents in our study because the Department does not formally track actions to address them, and these products are not prepared in accordance with generally accepted government auditing standards. We were told that OIG no longer prepares Issues to Consider papers, and the Department plans to begin tracking actions that address recommendations made in student financial aid action memorandums.

Status of Actions on PSI Recommendations

PSI issued one report, Abuses in Federal Student Aid Programs, in 1991, with recommendations for improving the management of student financial aid. The status of the Department of Education's actions, through April 1996, that we report on was determined by the Permanent Subcommittee on Investigations (PSI) staff who did the audit work. We did not assess the appropriateness of the determinations. The following identifies the report and describes the report's recommendations, Department actions taken, and PSI's conclusions about the actions' status and about whether the actions generally addressed the recommendations.

Abuses in Federal Student Aid Programs, S. Report 102-58, 1991

Recommendation: Develop minimum uniform quality assurance standards with which all accrediting bodies that accredit proprietary schools must comply, develop and carry out a meaningful review and verification process designed to enforce compliance with these standards, and terminate recognition if the Department determines that an agency that accredits proprietary schools does not meet the standards.

Department action: The Department has not issued these standards because the 1992 amendments to the Higher Education Act (HEA) gave accrediting agencies the flexibility to set their own.

The Department, however, is required to assure itself that all agencies have a systematic program of review to assess the validity and reliability of their standards and be able to demonstrate that their standards are valid indicators of quality. During departmental reviews of agencies seeking accrediting authority, the Department assesses the adequacy of agencies' compliance to their own standards.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require accrediting bodies to screen out substandard schools, especially in the area of proprietary schools.

Department actions: Since 1992, the Department has (1) reduced the number of years accrediting agencies are recognized, (2) fully reviewed 44 agencies for compliance with regulations, and (3) reviewed all agencies to

ensure that they accredit schools that participate in student aid programs administered by the federal government.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require accrediting agencies to improve their site examination procedures by doing them at shorter intervals, providing for unannounced visits, and increasing the training of team members.

Department action: The Department developed regulations mandating that accrediting agencies perform (1) at least one on-site review of a school or program participating in title IV programs when determining accreditation, (2) at least one unannounced inspection of schools providing vocational education and training between the time agencies were accredited or preaccredited and the expiration of a school's accreditation or preaccreditation, and (3) a site visit within 6 months of establishment of a branch campus or after a school's ownership has changed. Also, while regulations do not require levels of training length and content, they do require competent and knowledgeable agency staff, qualified by experience and training. PSI continues to be concerned that agency staff do not have the experience and expertise for reviewing and accrediting proprietary schools.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require accrediting agencies to share information with one another on all adverse actions against schools and school owners.

Department action: The Department issued regulations mandating that accrediting agencies share with each other, state agencies, and the Department information on all adverse actions against schools or programs. In March 1996, the Department implemented a new process for

following up on accrediting agency complaints about schools and programs they accredit.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require accrediting agencies to publicly disclose when schools are coming up for accreditation or reaccreditation.

Department action: The Department mandated that agencies (1) publish the year when a school or program subject to its jurisdiction is being considered for accreditation or preaccreditation and (2) provide an opportunity for third-party comments on the school or program's qualifications.

Agencies define time frames in their policies for publishing when schools or programs are being considered for accreditation. The Department is on the agencies' mailing list for this information. Also, agencies routinely invite the Department to comment on schools up for review and on any proposed changes to agency standards, policies, or procedures.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require accrediting agencies to develop and make public uniform, performance-based consumer protection standards, including, but not limited to, criteria on enrollments, withdrawal rates, completion rates, placement rates, and default rates.

Department action: As a result of 1992 HEA, the Department requires agencies to have standards that effectively address the quality of a school's or program's success concerning student achievement in relation to mission, including, as appropriate, consideration of course completion, state licensing examination, job placement rates, and default rates. The Department requires agencies to make this information publicly available but not in a uniform manner.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Work with the Department of Labor and industry to develop and make widely available accurate information on current and future market needs for proprietary school trades and skills that are subsidized by federal student aid programs.

Department action: The Department worked with Labor to develop a legislative proposal that would prohibit students in nondegree programs from receiving Pell grants. The Department believes that states, because they are better at predicting local labor market conditions, would have been permitted to use funds provided through block grants from Labor to make skill grants available for nondegree training. The Congress did not accept this proposal.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Revise limits on the amount of federal student aid for proprietary schools to better reflect the cost of equivalent training available through other legitimate sources of postsecondary education.

Department action: The Department is developing its legislative proposals for reauthorizing HEA in 1997 and, at that time, will consider this recommendation.

PSI's conclusion about the recommendation's status: Planned

PSI's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Assist the states by recommending uniform minimum licensing requirements, covering areas such as (1) recruitment, (2) advertising, (3) admissions, (4) separation of admissions from financial

aid, (5) site visits, (6) complaint procedures, (7) completion and placement data, and (8) enforcement procedures. Refuse to recognize for participation in the Federal Family Education Loan Program (FFELP) schools operating in states that do not adopt minimum uniform licensing standards.

Department action: The Department has not recommended minimum licensing requirements to the states. It does not have the authority to refuse to recognize schools operating in states that do not adopt recommended minimum uniform licensing standards because it cannot require establishment of these standards.

PSI's conclusion about the recommendation's status: None taken

PSI's conclusion about whether the action generally addressed the recommendation: No

---

Recommendation: Appoint an assistant secretary for Student Financial Assistance in the Office of Postsecondary Education (OPE), accountable for all aspects of the student aid programs.

Department action: OPE was reorganized, making the Deputy Assistant Secretary for Student Financial Assistance responsible for all student aid functions including gatekeeping, monitoring, and compliance functions. In 1994 the Deputy Assistant Secretary split responsibility with the Assistant Secretary for management of student financial aid. The Department plans to reintegrate these responsibilities on or before October 1, 1996.

As a result of its June 1995 hearings, PSI continues to be concerned that the Department's approach to oversight is uneven and inconsistent.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Perform a complete overhaul of the certification and eligibility award and program review process.

Department action: As a result of the 1992 HEA, the Department is required to recertify all schools participating in title IV programs by July 1995. Also, in 1995 the Department began to re-engineer its oversight office by better using its data to identify schools not complying with title IV requirements. The new Institutional Participation and Oversight Service Risk Analysis process, when implemented, is designed to coordinate and apply data from the Department's automated systems to sharpen the focus on high-risk schools. Meanwhile, updated school selection factors for program review planning will be available in the summer of 1996 for distribution to regional offices.

Because the actions were recently taken, PSI could not determine if they will address the recommendation.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Establish an office of oversight and enforcement to oversee activities of all program participants.

Department action: All of the Department's offices with monitoring and gatekeeping responsibilities were consolidated in OPE in 1992. Also, a new unit comprised of financial and program analysts was established in the Guaranty Agency and Lender Oversight Service (GLOS); its goal is to monitor guaranty agency and lender compliance with title IV program requirements.

As a result of its June 1995 hearings, PSI continues to be concerned that the Department's approach to oversight is uneven and inconsistent.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Streamline and modernize informational systems, improving communication and data exchange within the Department and among the Department and program participants.

Department action: The Department is implementing the National Student Loan Data System (NSLDS). Phase I (of III), which included prescreening for student financial aid eligibility and calculating default rates, was delayed for 1 year and was completed in November 1994. Phases II and III, including providing information on the time it takes schools to make refunds to students and send loan checks to lenders, and a summary of all previous title IV aid a student received while attending other schools, is on schedule and planned to be completed in the summer of 1996.

Because actions were recently taken, PSI could not determine if they will address the recommendation.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Standardize interpretation and enforcement of legislation and regulations.

Department action: A new office was established in 1995 to provide a centralized source of title IV operational and policy requirements to student financial aid professionals outside and staff within the Department. Some of the services provided include a toll-free line through which student aid officers can contact Department staff, and an electronic bulletin board system, both of which provide up-to-date information about policies and regulations. To standardize enforcement, this office is also responsible for establishing policy for and implementing a training program to disseminate legislative, regulatory, and policy requirements.

Because actions were recently taken, PSI could not determine if they will address the recommendation.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Reduce overly complex regulations and procedures.

Department action: The Department initiated two programs to reduce overly complex regulations and procedures. First, starting in 1987, schools that voluntarily demonstrated they meet certain eligibility criteria were provided regulatory relief under the Quality Assurance Program. Specifically, schools were permitted to administer their own process to verify that the information students reported on financial aid applications was correct.

Second, in April 1995, the Department began an experimental site program to provide regulatory relief at more than 100 schools that it determined performed well in administering student financial aid programs. Some exceptions for these schools include waivers of the requirements to make multiple disbursements for single-term loans, and to delay disbursing funds to a first-time borrower for 30 days.

PSI's conclusion about the recommendation's status: In progress

PSI's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Review and streamline current hearing and procedural requirements, eliminating unnecessary delays while guaranteeing basic due process protection.

Department action: The 1992 HEA removed the requirement that administrative hearings be held "on the record." As a result, the Department amended its regulations authorizing informal hearings to be held by hearing officials rather than administrative law judges. The Department plans to look for other ways to simplify hearing procedures while still ensuring due process and develop written guidelines for OPE staff to use in participating in hearings.

Because several actions are planned, PSI could not determine if they will address the recommendation.

PSI's conclusion about the recommendation's status: Planned

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

Recommendation: Address and report to the Congress on whether accrediting agency officials involved in the performance of their legitimate FFELP responsibilities should be subject to reasonable liability limits or be statutorily protected from lawsuits.

Department action: The Department has not reported to the Congress on whether accrediting agency officials should be subjected to reasonable liability limits or statutorily protected from lawsuits. The Department did not know that the recommendation existed.

PSI's conclusion about the recommendation's status: None taken

PSI's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Require criminal investigative training and expertise for its program compliance staff.

Department action: The Department provides annual training for all program compliance staff, including training in techniques for detecting and investigating possible fraud and abuse. In the last 2 fiscal years, newly hired institutional reviewers have received 5 weeks of classroom training in programmatic topics and techniques for conducting program reviews, including investigative techniques; and experienced reviewers have received a 1-week refresher program. All regional institutional review staff will attend a 2-week training program specifically on criminal investigative techniques next fiscal year.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop credible inspection and follow-up procedures to be instituted in program compliance reviews of schools.

Department action: A revised program review guide was issued in July 1994. It follows a "focus item" approach that directs program reviewers to review 34 key compliance areas. In addition, the Department revised institutional review standards to minimize the time needed

between finalizing a review and issuing a report to ensure that significant findings receive prompt actions.

PSI continues to be concerned that, in March 1995, the Department discontinued its policy of performing all program reviews on an unannounced basis. PSI found that, in the past, some schools may alter records and engage in activities designed to deceive reviewers when reviews are announced.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

---

Recommendation: Hire banking and financial auditing specialists to assist the program compliance review staff in carrying out oversight of FFELP financial intermediaries.

Department action: Since 1991, GLOS has hired 11 financial analysts. Of these, three were certified public accountants, and another three were experienced auditors. In addition, two supervisory financial analysts were hired—one of whom had a background in financial reviews of banks.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Improve procedures so that the program compliance staff moves quickly to audit the financial aid records of closed schools to determine losses and attempt to collect monies owed to the students or the government.

Department action: The Department provides guidance on closed school procedures, for example, by directing regional office staff to cancel or postpone other low-priority scheduled activity, when necessary, to ensure timely visits of closed schools. Also, the Department has established an emergency offset process to deny reimbursement requests to schools that have not submitted closeout audits; denies recertification when owners close schools that have not fulfilled their closeout responsibilities; and

issues final audit determinations for all unaudited funds to establish liability against a school, once the period for submitting closeout audits has expired.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Greatly expand and improve coordination and communication with other federal agencies. Seek the assistance of the Departments of Labor and Veterans Affairs in sharing mutually useful information.

Department action: The Department said that, in the past, it (1) had discussions with Labor on coordination in which it determined that the structure of each Department's respective programs was sufficiently different that comparisons were not helpful and (2) shared information about adverse actions with VA; however, this effort was discontinued in the late 1980s because it was not producing results. As of April 1996, the Department had not developed initiatives to improve its coordination with VA and Labor.

PSI's conclusion about the recommendation's status: None taken

PSI's conclusion about whether the action generally addressed the recommendation: No

---

Recommendation: Develop ways to assist those students who continue to be victimized by fraud and abuse with FFELP. Increase efforts to prevent this type of abuse in the future, and work with students to ease financial burdens imposed as a result of past abuse.

Department action: The Department developed regulations allowing a student's loan to be forgiven if the student was enrolled or withdrew within 90 days of a school's closure and could not complete the educational program for which funds were received. The Department provides relief to students whose loans were falsely certified by an eligible school or, if a borrower's signature was falsified, the loan may be forgiven.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require principal participants in FFELP to submit formal statements disclosing any interest they hold in other participating FFELP entities. Closely review disclosure statements of principal participants and take appropriate action to prevent instances of potential conflict of interest.

Department action: The Department is developing a regulatory proposal requiring guaranty agencies to have a code of ethics that would compel their staff and affiliates to disclose any interest they hold in participating student loan entities. The Department plans to publish final regulations by December 1, 1996. Also, Department regulations require accrediting agencies to have clear and effective conflict-of-interest controls for its officials.

Because actions on guaranty agencies are planned, and no action has been taken on other FFELP participants—such as officers, directors, employees, and consultants of schools, originating lenders, loan servicers, and state licensing authorities—PSI could not determine if actions will address the recommendation.

PSI's conclusion about the recommendation's status: Planned

PSI's conclusion about whether the action generally addressed the recommendation: Cannot determine

Recommendation: Strictly enforce the regulatory requirement that accrediting agencies develop ethical standards to ensure that those involved in key accreditation actions and decisions have no stake in their outcome.

Department action: The Department has cited several agencies for having incomplete conflict-of-interest polices, and two agencies have been cited by the Department for serious noncompliance deficiencies in this area.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Prohibit participating FFELP lenders from selling the promissory note for a guaranteed student loan until after the entire loan has been disbursed.

Department action: Regulations prohibit a lender from selling a promissory note until the entire loan is disbursed.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Lenders should be required to wait a specified time to allow for receipt of cancellations or refunds before sale of the loan.

Department action: The Department believes that PSI's concerns are no longer valid because lenders are now required to disburse an entire loan before it can be sold (see action for previous recommendation).

PSI could not determine if the Department's claim is reasonable because the Department could not provide any justification to support its claims.

PSI's conclusion about the recommendation's status: None taken

PSI's conclusion about whether the action generally addressed the recommendation: No

---

Recommendation: Student borrowers should be notified of the details of the sale of their loan by both the seller and buyer.

Department action: Regulations require the old and new holder of a loan to contact the borrower.

PSI's conclusion about the recommendation's status: Complete

PSI's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish a pilot program within participating guaranty agencies and lenders to test the utility of conducting a credit check on guaranteed student loan applicants to determine the extent to which potential borrowers have significant adverse credit histories. In implementing this recommendation, make use of information available from lenders who are already conducting such checks.

Department action: HEA would have to be amended to conduct credit checks on student loan applicants. As a result, the Department believed it lacked authority to implement this recommendation.

PSI's conclusion about the recommendation's status: None taken

PSI's conclusion about whether the action generally addressed the recommendation: No

Status of Actions on OIG Recommendations

The Department of Education's OIG issued 24 reports with recommendations for improving the management of student financial aid programs between September 1991 and June 1995. The status of the Department's actions that we report on was determined by the OIG staff who did the audit work. We did not assess the appropriateness of the determinations. The following identifies the 24 reports and describes these reports' recommendations, Department actions taken, and OIG's conclusions about the actions' status and about whether the actions generally addressed the recommendations.

Report on the Transitional Guaranty Agency's Role in Guaranty Agency Transition Strategy, ACN 05-40007, June 2, 1995

Recommendation: Consider soliciting structured merger proposals from strong guaranty agencies that meet predefined criteria for merging with guaranty agencies that close.

Department action: The Department disagreed with this recommendation. On the basis of experience with guaranty agencies that have merged, the Office of Postsecondary Education (OPE) has found that the guaranty agencies lack the capacity to handle rapid consolidation. OPE is also identifying strong guaranty agencies through its current round of reviews. OIG maintains that, by acting on the recommendation, the Department would have identified candidates for mergers before a decision by a guaranty agency to close.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Consider requiring early guaranty agency portfolio reconciliations based on a statistical acceptance sampling plan. This will facilitate mergers by providing more accurate data for a smoother transition.

Department action: The Department disagreed with this recommendation but not with the underlying goal of ensuring data accuracy. Because of the expense involved, OPE believes reconciliation should be done only in cases where it is likely an agency's loan system data are inaccurate, when an agency's data will be converted to a new system because of a consolidation, or when an agency leaves the Federal Family Education Loan Program (FFELP). OPE also believes its current

efforts to improve the quality of National Student Loan Data System (NSLDS) data will require that certain guaranty agencies reconcile their data. OIG maintains the Department does not systematically collect data on the accuracy of guaranty agency portfolios.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Consider working with the Transitional Guaranty Agency (TGA) to ensure that appropriate performance measures are in place to assess the continued need for TGA and its effectiveness.

Department action: OPE is analyzing data it obtained from guaranty agency reviews to determine performance measures for guarantors as a whole, and it will discuss with TGA what performance measures could be used to assess its value to the Department.

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: No

Financial Statement Audit—U.S. Department of Education Federal Family Education Loan Program for the Years Ended September 30, 1994 and 1993, ACN 17-40302, May 31, 1995

Recommendation: Review and amend cash reconciliation policies and procedures to make reconciliations more timely and effective. The Department should (1) continue planned reconciliation enhancements, (2) require timely posting of adjustments, (3) identify and establish controls to prevent recurring problems, and (4) consider designing the Education Central Automated Processing System (EDCAPS) to more fully automate the reconciliation process.

Department action: OPE is (1) implementing improvements to enhance the reconciliation program by directly loading general ledger data, (2) analyzing recurring reconciliation problems to determine the cause and implement proactive control systems, and (3) analyzing and determining reconciliation needs during EDCAPS development and replacing, if feasible, the current program to automate the process further. OPE established procedures to ensure timely adjustments to the general ledger and Treasury Department report.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require independent reviews of periodic fund balance reconciliations and document the results.

Department action: OPE is performing independent reviews of periodic fund balance reconciliations and documenting the results.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Modify policies and procedures to properly account for loans receivable under Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards Number 2 (FASAB 2) requirements. Policies and procedures should include (1) considering new reinsurance reporting requirements, (2) exploring the capability of producing necessary management reports using NSLDS, and (3) recalculating the allowance for subsidy on a quarterly basis using management reports.

Department action: OPE is taking the following actions: (1) implementing accounting transactions to adjust the subsidy each time a loan's receivable balance is adjusted, (2) modifying the system's contract to adapt new/revised accounting transactions, and (3) developing reports from NSLDS to adjust loans' receivable balances in accordance with new policy. OPE has developed new receivable transactions in accordance with FASAB 2 and implemented the new transactions in the primary accounting system (PAS).

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Test the accuracy and validity of the loan data in NSLDS as part of the Department's routine guaranty agency oversight function.

Department action: OPE has identified many data inaccuracies in NSLDS and plans to develop management reports comparing NSLDS data to data submitted by guaranty agencies and provide a list of discrepancies to the Guaranty Agency and Lender Oversight Service (GLOS). OPE also included testing of the accuracy of NSLDS data in an OMB compliance report for guaranty agency audits, and formed an OPE data integrity group to better ensure the accuracy of NSLDS data.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop and monitor an automated audit trail of the Guaranty Agency Fund Subsystem global edit override process.

Department action: OPE directed the systems contractor to remove the global override edit code in the Guaranty Agency Fund Subsystem database. This would require individual edit overrides, which have an automated audit trail.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Managing for Results: Review of Performance-Based Systems at Selected Accrediting Agencies, ACN 06-30004, May 8, 1995

Recommendation: Evaluate accrediting agencies' standards and procedures for measuring success in student achievement. To be most effective, the standards should include (1) the most critical measure of success—how many of the 2 million students enrolled each year obtained a training-related job? (2) reasonable steps to verify the accuracy of member schools' reported performance outcomes, and (3) a mechanism for holding schools accountable for unsuccessful job training programs.

Department action: The Department previously took action it believed addressed the recommendation. It is implementing this recommendation in accordance with a similar requirement in the 1992 HEA amendments. It

believes that other factors besides job placement should be measured. Accrediting agencies should also have flexibility to set standards for measuring these factors and develop other measurements of success provided they can demonstrate their appropriateness to the Department. OIG does not believe this is sufficient for the Department to obtain performance data on accrediting agencies.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Develop a process to collect and compile the reported performance data from accrediting agencies to determine the overall success of title IV-funded job training.

Department action: The Department disagreed with this recommendation. It believes this would impose a considerable burden on accrediting agencies. The agencies should be given flexibility to collect and compile such data in ways that minimize burden and maximize their usefulness for the agency and its member schools. OPE also believes methodological limitations affect the value of such data. OIG believes the Department needs to act to ensure itself and the Congress that schools are providing quality programs and to successfully implement its proposed new gatekeeping system introduced in July 1995.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Financial Statement Audit of the U.S. Department of Education Federal Direct Student Loan Program for the Year Ended Sept. 30, 1994, ACN 17-48320, March 17, 1995

Recommendation: Require implementation of procedures to reconcile advances with specific loans disbursed (in addition to an all-activity reconciliation, which is performed monthly).

Department action: The Department is developing and automating a transaction-based payment system to conduct this reconciliation. It plans to fully implement the system in July 1997.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Require schools to use the reimbursement method if they do not adhere to the Department's cash management regulations for 2 months. (Under the reimbursement method, the Secretary may require schools to document costs and enrollment of eligible students and be reimbursed by the Department, rather than drawing funds in advance from the school's title IV allocation.)

Department action: The Institutional Participation and Oversight Service (IPOS) is revising the program review guide to include procedures to apply the reimbursement method to schools that do not adhere to the Department's cash management regulations. The Department is preparing regulations to require schools to use alternative loan origination if it is determined that federal funds are at risk.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Encourage schools to transmit "actual disbursement records" to the loan servicer (Servicing Center) the day of disbursement (or as soon as practical) to enable the Servicing Center to "book" the loan.

Department action: Schools have been advised of the need to transmit disbursement records to the servicer as soon as possible. The Department also issued regulations to require schools to submit origination records, promissory notes, and disbursement records within 30 days of

disbursements. OPE is developing special reports to be generated from the new origination system that will identify schools that have drawn down funds and not reported disbursements in a timely fashion.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Automate and integrate the balancing functions between the Direct Loan Servicing System (DLSS) and the Financial Accounting and Reporting System (FARS).

Department action: A Department contractor has developed an automated reconciliation program for balancing the Student Loan Servicing System to FARS. The Department plans to put the program into use after the Program Systems Service's (PSS) and the Accounting and Financial Management Service's (AFMS) comments are addressed.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Provide enhanced training to schools, emphasizing reconciliation and transaction dating requirements, file structures and layouts, timing requirements, and critical interfaces with DLSS.

Department action: Regional training sessions on reconciliation and cash management were held in the fall of 1995. Videos of the sessions are available to schools that missed the training.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require that all schools report actual loan disbursement dates in the school-based software and mainframe systems.

Department action: OPE sent a bulletin to schools in February 1996 clarifying the disbursement date and emphasizing the importance of correct dates; it advised program review and OIG audit management of this recommendation to incorporate it into planning program reviews and OIG audits.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Require that mainframe and combination schools perform comprehensive tests of the school-based systems before going "live." (Going "live" refers to transmission of actual data to the Department.)

Department action: OPE developed and implemented a data interface testing process between schools and DLSS. Schools are required to perform testing before going "live."

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Ensure periodic risk-based reviews are performed of the school-level quality assurance systems, general and environmental controls, backup and disaster recovery procedures, etc., to identify problem areas for particular schools and the Federal Direct Student Loan Program (FDSLP) as a whole.

Department action: OPE shared the recommendation with program review and OIG audit management to allow them to better plan risk-based program reviews and OIG audits and to prepare appropriate review and audit guides. It also revised its plan for periodic OMB-mandated joint system control reviews to ensure that direct loan system reviews are performed. OPE plans to include direct loan internal control procedures in

its program review guide and enhance schools' software to allow schools to measure performance.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Enhance school-based software and mainframe systems to include loan limit checks at the loan servicer and schools.

Department action: OPE made changes to both the school software and the DLSS Loan Origination Subsystem to include loan limit edits for the second year of the program.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Inconsistent Institutional Pell Grant Reporting Results in Significant Expenditure Discrepancies, ACN 11-30001, September 26, 1994

Recommendation: Require the chief financial officer of each institution to reconcile and certify the September 30 expenditure reports.

Department action: External and internal work groups have been meeting to develop requirements for an Integrated Student Aid Management System to provide a single source for student-level expenditure reporting by the school business officer. Some changes are expected for the 1996-97 award year and beyond. OPE also identified the 100 schools with the largest reporting discrepancies and followed up with them to identify the causes and resolve problems. OPE reduced authorizations to student aid report levels for schools not filing timely data.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require the chief financial officer of each institution to certify via a final accounting that all student-level data are accurate as of September 30.

Department action: Same as action in previous recommendation.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Enhance controls over requests for reinstatement of funds and for increases in authorization after the September 30 adjustment deadline by (1) requiring a revised final accounting of student-level data to justify the increases, (2) imposing penalties for repetitive inaccurate and late submission of final reports, and (3) requiring that an independent auditor certify the amount of and need for a reinstatement of funds once closeout is completed.

Department action: OPE implemented the following controls: (1) adjustments to authorization levels are to be based only on student-level data, (2) the statement of accounts that includes the Form 272 amounts as well as authorization and student aid report levels will be sent quarterly to financial aid administrators and business officers to aid in reconciliation, and (3) emphasis will be placed on timely reporting of downward adjustments. Additional awards to students will be blocked until adjustments are reported.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Ineligible Non-U.S. Citizens Received $70 Million in Pell Grants, ACN 11-40000, September 9, 1994

Recommendation: Initiate a data matching agreement with the Social Security Administration (SSA) to verify citizenship for all federal student aid applicants that claim U.S. citizenship. Include this procedure with the forthcoming Social Security number verification.

Department action: The Department entered into a data matching agreement with SSA in September 1995. The match is run weekly.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Flag all applicant records that fail the citizen verification and notify each applicant that his/her application is suspended until the applicant can provide the Department with proof of citizenship.

Department action: OPE has implemented this measure and issued proposed regulations in September 1995.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Why Use Pell Grants for Instruction in English as a Second Language? Taxpayers Pay More and Students Get Less, ACN 09-40003, August 12, 1994

Recommendation: Request the Congress to eliminate English as a Second Language (ESL)-only programs from eligibility for the Pell Grant program.

Department action: The Department believes the administration's proposed skill grant program indirectly addresses this. The proposal would eliminate Pell grants for nondegree programs and transfer their funding to the Labor Department. Students in nondegree programs would receive grants similar to Pell grants through Labor. ESL funding would not be specifically disallowed, but a substantial portion of Pell grant funding for it would shift to the Labor Department under the proposal.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: If necessary, seek more adult education funds for ESL instruction.

Department action: The Department did not propose any action to address this recommendation.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Review of Performance of the Guaranteed Student Loan Branches Within Student Financial Assistance Programs, ACN 04-20075, January 27, 1994

Recommendation: Regional Guaranteed Student Loan Branch (GSLB) staff should report to the Director of GLOS rather than the Field Operations Service (FOS) to enforce line authority and responsibility. (GSLB has been reorganized and renamed the Guarantor and Lender Review Branch (GLRB).

Department action: The Department disagreed with this recommendation. OPE believes that setting strategy for reviews by regional offices is best achieved by GLOS working cooperatively with the regions, IPOS, and a newly established Regional Operations Division (ROD). OIG believes that because ROD is administrative in nature, the management problems it identified will not be resolved. It maintains that GLRBs must be directly aligned with a unit that manages its operations for improvements to occur.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No[11]

Recommendation: GLOS should be held accountable for the operations of the regional GSLBs and (1) develop priorities for the most vulnerable areas of review with the Deputy Assistant Secretary and the Institutional Monitoring Division (IMD), (2) determine GSLB objectives within the parameters set in (1), (3) determine resources necessary to achieve GSLB objectives, and (4) establish the basis for the budget with support from FOS.

Department action:[12] The Department disagreed with this recommendation. OPE believes GLOS' role is to give direction to regional office review activities and coordinate these activities with IPOS and ROD.

[11]OIG plans to reassess the status of the Department's recent activities on those recommendations that were not generally addressed.

[12]In its technical comments on a draft of this report, the Department said that since April 1996, it has taken additional action on this recommendation.

OPE also stated that periodic planning sessions have been held to develop a detailed review plan and budget. Staff needed to carry out the plan were identified during these sessions. GLOS, IPOS, ROD, FOS, and the regions participated in these sessions. OPE does agree, however, that GLOS should be responsible for developing review priorities. OIG believes GLOS should have greater influence over GLRB operations and ROD's role should be that of a support unit for GLOS and the regions.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: The Student Financial Assistance Programs (SFAP) should fully develop and implement a system that will provide the necessary data to be used in planning and conducting program reviews.

Department action: OPE responded to this recommendation by providing a justification of how it undertakes lender reviews. It did not address the need for an information system.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS, in conjunction with GSLB chiefs, should (1) develop significant criteria to be used for the selection of candidates for review, (2) assign weights to the significant criteria, (3) select candidates for review on the basis of application of weighted criteria, and (4) determine and assign responsibility for reviewing selected candidates.

Department action: GLOS and GSLB chiefs developed review plans during fiscal years 1994 and 1995. These included several criteria for prioritizing entities for review such as covering the largest entities not reviewed in the last 2 years and responding to complaints from consumers, OIG, or program participants. OPE, however, felt that weighing criteria would be unnecessarily cumbersome and did not plan to implement that proposal.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: GLOS should ensure coordination among GSLBS in targeting and reviewing lenders.

Department action: OPE stated that regional offices have cooperated in targeting and reviewing lenders and that its fiscal year 1994 review plan reflects this cooperation.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: GLOS should ensure coverage of those lenders that are the guaranty agencies' top 10 or top 2 percent of lenders in the FFELP portfolios.

Department action: GLOS has provided additional written guidance to guaranty agencies on lender coverage, but OIG was not satisfied OPE explained how it would ensure review of any top 10 or top 2 percent of lenders not reviewed by guaranty agencies as a result of substitution of reviews of other lenders.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS should implement strategic planning and develop review priorities in conjunction with the regions. In turn, GLOS should then coordinate with FOS to determine that resources are available. The "constellation" process should be fully defined and conveyed to GSLBS to assist in the systematic review of related problem entities. Appropriate training should be provided to reviewers to ensure adequate reviews of targeted entities are conducted.

Department action: According to OPE, (1) strategic planning was implemented through the development of the fiscal years 1994 and 1995 review plans, (2) the constellation review process was implemented and reviewer training has been initiated, and (3) guaranty agency review guide and workpaper requirements were issued in March 1995.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: GLOS should develop standards of performance to measure the quality of the review process.

Department action: OPE is postponing changing employee performance standards until Departmentwide changes in the appraisal system are implemented. OIG was not satisfied that OPE explained actions taken to address disparate quotas set forth in regional General Performance Appraisal System (GPAS) agreements or the unequal evaluations reviewers receive because of the different quotas.

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: SFAP should (1) work within the Department to specifically define and strengthen the knowledge, skills, and abilities ranking factors used for hiring personnel for GLOS and GSLBS; and (2) for current staff, arrange for and provide specific technical training to ensure effective performance.

Department action: Knowledge, skills, and abilities factors for GSLB chiefs and senior reviewer positions have been revised and rewritten. Training for (1) reviewer staff on computer applications, (2) regulations resulting from the HEA amendments of 1992, and (3) policy and workpaper standardization was conducted between September 1993 and November 1994.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: SFAP, with input from GLOS, should develop training profiles for both new and senior staff to ensure that employees receive proper and adequate training to effectively perform their jobs. Consideration should be given to requiring reviewers to achieve a certain number of hours of useful training each year.

Department action: OPE stated that it believes the use of newly developed individual development plans help fulfill this recommendation. OIG maintains that OPE did not address the use of progressive training profiles, which are more useful in helping staff to assume greater responsibilities.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS should do the following: (1) Develop standards for comprehensive reviews. At a minimum, the standards should include analyzing policies and procedures, internal controls, financial statements, and software packages. (2) Provide guidance to the regions to foster uniformity and consistency in the performance of program reviews. (3) Develop a self-evaluation system to ensure that the regions follow headquarters guidance and perform comprehensive reviews.

Department action: A new lender audit process is being implemented, and OPE plans to issue revised guidance to the regions on program review procedures shortly afterwards. GLOS is analyzing review and evaluation criteria used by other government agencies responsible for oversight of lenders' financial condition to determine their applicability to guaranty agencies. OIG was not satisfied OPE addressed (3). It also believes a self-evaluation system would allow OPE to understand what guidance is not followed and why.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS should require statistical sampling for borrower file samples on lender reviews. GLOS should ensure that adequate training is provided to reviewers so that valid statistical samples are drawn and documented.

Department action: OPE agreed and is planning a training session on statistical sampling.

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: GSLBS should discontinue notifying the lender before the site visit of the files to be reviewed.

Department action: OPE stated that, whenever possible, it will not notify lenders before a site visit. It added that, once the use of statistical sampling is begun, some advance notice may be unavoidable when samples are large.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: GLOS should mandate computer usage on program reviews. SFAP should hire a computer specialist or develop expertise among current staff. Training on the developed programs should be provided to reviewers.

Department action: All reviewers have been provided with notebook computers and are using them. Training was provided. PSS provides expertise, and recruitment has begun to fill regional systems coordinator positions to provide expertise in the regional offices.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: GLOS should develop standards for working papers concerning content, retention, and indexing. These standards should be provided to staff, and the staff should be trained to successfully complete working papers.

Department action: Workpaper standards were developed, and staff were trained to develop standard workpapers in November 1994.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: GLOS should develop standards for the expected level of supervision. At a minimum, these standards should include site visits and working paper review.

Department action: Refinements were made to supervisory standards in position descriptions, performance plans, and appraisals. The new workpaper standards require supervisory review and signoff.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: GLOS should develop reporting standards that include the lender's background information for placing findings in perspective. At a minimum, these standards should include how the sample was drawn and from where; the universe size; and prior reviews, including major findings.

Department action: The reporting format was developed and issued in the form of written guidance and is used in all regional offices, according

to OPE. The guidance discusses sections on background and scope of review but not prior reviews and findings. Regions also share their background sections with each other to foster improvement. OIG did not believe OPE's guidance addressed reporting on lender background and prior reviews or that OPE adequately supported the sharing of background sections.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: SFAP should become involved in the operations of the regions such as significant ongoing and pending reviews, potential referrals, national scope reviews, etc. SFAP should fully implement the clearance process of reports with liabilities over $50,000 and referral issues. Controls should be established to follow up on reviews that merit headquarters clearance but are not received.

Department action: The Department disagreed with this recommendation. OPE believes that GLOS is already deeply involved with the regions through the joint planning process and daily informal communications. OPE also considered submitting reports for headquarters review as a quality assurance mechanism but concluded that its team approach, along with clearer standards, better training, and possibly peer review, will address quality concerns. Reports with over $50,000 in liabilities or referral issues are already submitted to headquarters review. OIG did not believe OPE's response provided assurance that the clearance process is fully implemented.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GSLBS should discontinue the practice of issuing "tentative" closure letters for reviews.

Department action: OPE stopped this practice.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: GLOS should institute and implement procedures whereby all appeals and challenges are brought to the attention of headquarters. The procedures should include adequate controls for follow-up of appeals and challenges that are not brought up to headquarters.

Department action: OPE disagreed with the recommendation. It stated that most of this authority was delegated to regional offices. Branch chiefs have the authority and responsibility to bring significant issues to headquarters' attention.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: The Assistant Secretary should (1) propose that the Congress amend the legislation to strengthen the Department's ability to limit, suspend, fine, and terminate lenders and guaranty agencies; (2) once these regulations and legislation are in place, direct GLOS to provide training to GSLBS on the avenues available to reviewers; and (3) direct GLOS to implement a system of determining that appropriate actions are being taken against lenders and guaranty agencies.

Department action: According to OPE, the Student Loan Reform Act of 1993 and other statutory authorities provided the Department the authority to take strong action against guaranty agencies and lenders. Regional office FFELP staff received training on these provisions in fiscal year 1994. OIG found that the lender audit guide does not address actions OPE may take against lenders based on audit and review findings and that OPE did not address (3).

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS should (1) implement policies and procedures to follow up on why level 3 reviews and reviews with potential indicators of fraud and abuse were not referred to OIG; (2) develop procedures whereby noncooperation by the lender is considered a basis for referral to OIG; and (3) clarify the GSLB mission so that the branches become compliance components to aid the Department in eliminating fraud and abuse.

Department action: OPE responded that its records show many instances of referrals to OIG in cases where fraud and abuse were suspected and that Department personnel are periodically reminded to report suspected fraud and abuse to OIG. It also advised OIG that it rewrote the GSLB mission statements. OIG did not believe OPE addressed (2) or provided documentation to support its referrals to OIG.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No (see footnote 11)

Recommendation: GLOS should refocus its mission and functions to complement changes made by the HEA amendments of 1992 and the Student Loan Reform Act of 1993. This will entail (1) monitoring the lender audit reports to identify problem trends, (2) using reviewers to problem solve at identified problem lenders, and (3) determining the impact of FDSLP on the operations of GSLB.

Department action: OPE responded that GLOS refocused its mission to support the Transition Task Force and has participated in a Department steering committee to implement the new audit process. Also, lender audit results will be used to target site visits as soon as they are available. Some problem solving may be involved, depending on the audit results. OPE also amended its fiscal year 1994 budget on the basis of an analysis conducted in response to (3).

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Effectiveness of the Regional Institutional Review Branches Monitoring of Institutions Participating in the Student Financial Assistance Programs, ACN 05-20075, December 21, 1993

Recommendation: Identify the primary role of the regional Institutional Review Branches (IRB) to (1) ensure compliance with regulations through reviews that target abusive schools, (2) remove abusive schools from participation in SFAP, and (3) recover misspent funds through assessment of liabilities and fines.

Department action: FOS was reorganized as ROD in IPOS effective January 30, 1995. The new functional statement reiterates the mission of IRBS.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Reassign technical assistance and training functions currently being performed by regional IRBS.

Department action: SFAP established three training officer positions for each region, increasing the number of positions from 10 to 30. Sixteen of the 30 were filled as of June 1995. A centralized Customer Service Unit was established to provide technical assistance to the 10 regions. It now accepts calls from all 10 regions.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Ensure that any secondary roles of the regional IRBS are clearly identified, limited in nature, prioritized, and not in conflict with their primary role.

Department action: OPE believes the reorganization will minimize the nonreview responsibilities of IRBS but not entirely eliminate them.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Ensure that regional IRBs primary role and any secondary roles are consistently reflected in performance agreements and that they coincide with the revised mission statement.

Department action: Regional directors' staff GPAS will be revised to reflect the review mission and newly developed standards and ensure consistency among regions. The new GPAS system was scheduled to take effect in May 1996.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: OPE should merge IMD-IRB function and the regional IRBs into one organizational unit.

Department action: As of January 1994, FOS reported to IPOS.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Establish and maintain an information system that tracks performance indicators that measure progress toward achieving regional and headquarters mission. The systems should track performance indicators by individual institutional review and other regional IRB activities; monitor resource utilization, including staff time and travel expenses; review outcomes, including liabilities and fines paid, administrative actions taken, and abusive schools closed; and track the results of any appeals.

Department action: The Postsecondary Education Participants System (PEPS) has been implemented and is used to generate management reports to evaluate outcome-based performance management factors such as those recommended. Weekly summary reports are provided to headquarters and regional management.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop an information system that meets headquarters' and regional IRB managers' needs.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop appropriate system edit checks and data entry verification procedures.

Department action: Three PEPS procedure memos were issued detailing data entry and edit check procedures. PEPS staff provide periodic reports to highlight data entry and edit check problem areas such as missing reviewer initials.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop an information system that compares performance indicators to mission-driven goals.

Department action: ROD generates a weekly program review activity report from PEPS to provide this information.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: OPE should work with the Department's Personnel Management Service and OPM to refine the reviewer position description to identify the knowledge and skills that successful reviewers need. The position should require appropriate college education or clearly defined types and quantities of prior student financial aid experience that should be considered as a substitute for education. Only candidates that meet the new requirements should be hired.

Department action: OPE issued senior reviewer position descriptions that included appropriate knowledge, skills, and abilities, including a knowledge of sampling techniques and written communications skills, to recruit qualified senior reviewers. OPE states it has since hired approximately 100 senior reviewers.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Improve the quality and increase the quantity of training for reviewers by establishing the following: (1) new employee training requirements to ensure that training is consistent across regions and sufficiently detailed to ensure a common base of knowledge for all staff and developed using regional managers' insights, (2) a training profile to establish continuing professional education requirements to enhance the development of reviewers, and (3) minimum annual requirements for the total hours each reviewer must spend in training (including regulatory updates and staff development).

Department action: OPE developed a training module for newly hired reviewers and conducted its first two sessions in late 1994. The program is 23 weeks long and consists of classroom instruction on the statutes, regulations, and operation of the title IV programs and on conducting reviews. The remainder of the time is spent on the job. Although SFAP has not established a set training profile, it has committed to providing

ongoing annual training of at least a week's duration for all reviewers; the specific topics and emphasis on the training will vary, depending on the needs of reviewers and the evolving work methods of IPOS. IPOS also regularly provides regulatory updates through conference calls and face-to-face meetings of both headquarters and regional staff.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Require regional IRB employees to annually disclose any actual or potential conflicts of interest to regional managers for use in planning assignments.

Department action: FOS distributed a disclosure memorandum in January 1995 outlining procedures for IRB employees to disclose any actual or potential conflicts of interest for use in assignment planning.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Eliminate recently reviewed schools from the factor list and require regional IRBs to (1) give primary consideration to reviewing schools with high factor scores and (2) document the reason for selecting a school for review in the working papers.

Department action: OPE implemented a new prioritized selection system to identify schools with high factor scores. Regional offices analyze the factor list to eliminate recently reviewed schools.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require reviewers to use sound judgment in determining the scope of a review by identifying review guide areas likely to result in abuse or financial harm to students and the Department such as refunds, ability-to-benefit, program length, institution/student eligibility, and disbursement procedures that the reviewer must cover in every review. The remaining review guide areas should be prioritized and completed as time allows. These priorities should be periodically reevaluated on the basis of past review results and changes in SFAP requirements. Recent reports by other review agencies should also be used to expand the scope of institutional reviews.

Department action: The most recent program review guide, issued in July 1994, discusses the survey review, which is an initial comprehensive review to determine where more in-depth reviews should be made, and the concentrated review team approach, to be used when potential problems are identified. The guide also includes a list of focus items for examination during survey reviews. OPE also implemented a system to periodically assess review priorities. ROD also stated that they use other agency reports, including those issued by guaranty agencies, to assist in pre-review preparation, establishing the scope of reviews, and comparing findings.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop and require the use of a standardized sampling approach that reviewers can expand to a valid statistical sample if they find significant problems. The working papers should identify the universe and methodology used to select the sample. The reviewer should project sample results to the universe to estimate the significance of the deficiency and evaluate the results of any required file reviews.

Department action: Regional reviewers completed training on statistical sampling techniques in June 1995. Currently, regional reviewers are using these techniques whenever practical. Statistical sampling updates are provided, such as during a June 1996 meeting for supervisors.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish minimum standards to ensure workpaper documentation is sufficient to support findings. The working papers should include a summary and the findings; document calculations and conclusions; identify information sources, preparer, and date; document significant meetings; and include a table of contents, an indexing system, and checklists cross-indexed to supporting working papers.

Department action:[13] Policies and procedures for workpapers addressing issues such as documentation, supervision, and maintenance were prepared. The new standards were pilot tested in four regions, and a team has been convened to make revisions on the basis of the test results. An additional testing period was planned and expected to be completed by June 1996.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Specify minimum requirements for the extent and documentation of supervisory review. Supervisory review should ensure that findings are accurate and supported by sufficient competent evidence.

Department action: A project on workpaper documentation is addressing supervisory review. IPOS is developing a checklist for supervisory review of workpapers (see footnote 13).

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish file maintenance requirements for institutional and review files. At a minimum, secure all significant

[13]In its technical comments on a draft of this report, the Department said that since April 1996, it has taken additional action on this recommendation.

documents on an institutional review in the official files. Discourage maintaining institutional documents in personal files.

Department action: The workpaper documentation project is also exploring ways to maintain files consistently and ensure document security. A planned imaging project for long-term document storage has been deferred for lack of funds.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Require IRB reports and Final Program Review Determination Letters (FPRDL) to relate sample sizes (student counts and related SFAP funding) to the sampling universe and funding under review.

Department action: The program review guide issued in July 1994 includes a standard description of the sample/population size relationship as it should appear in program review reports.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Require supervisory approval for any findings dropped between the review report and FPRDL.

Department action: The workpaper documentation project will include requirements for documenting dropped (or resolved) findings between the preparation of the review report and issuance of FPRDL.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require branch chiefs to sign all institutional review reports and FPRDLs. Section chiefs should sign all other correspondence between the regional IRB and the reviewed schools. Regions without section chiefs should require branch chiefs to sign. Reviewers should not sign any official documents related to the review.

Department action: IPOS issued (1) guidelines specifying the signatures required to issue program review reports and FPRDLs and (2) revised delegations of authority for final program review determinations.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Revise institutional review closure standards to minimize time needed between report and FPRDL issuance and ensure that significant findings receive prompt actions.

Department action: Review closure standards and sample reporting formats are contained in the July 1994 program review guide. ROD generates a periodic status report from PEPS for regional managers showing program review reports and FPRDLs that exceed standard time frames. IPOS also issued a memo addressing recommendations for expediting closure of program review reports.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Reduce the reliance placed on schools to quantify findings.

Department action: Schools have been provided guidance on conducting their file reviews. Program reviewers provide the schools with a valid random statistical sample with a 95-percent confidence level to guide their reviews. Samples are to be drawn in accordance with the procedures outlined in the 1994 program review guide.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish standards for using pre-appeal negotiations of FPRDLs.

Department action: IRB no longer participates in pre-appeal negotiations with schools. The program review guide outlines appeal standards.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish follow-up procedures that include (1) regional IRB comments on the final disposition of FPRDLs and recommendations for administrative action and (2) review of subsequent Independent Public Accountant (IPA) reports to ensure that IPA commented on the implementation of corrective action recommended by regional IRBs.

Department action: OPE said that the program review guide issued in July 1994 addresses this recommendation.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Adopt appropriate standards for completing institutional reviews.

Department action: Standards were implemented with issuance of the program review guide in July 1994. Also, FOS is required to monitor and update performance standards.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: OPE should conduct periodic peer reviews of the regional IRBs to assess the adequacy of and adherence to established standards and procedures and the utilization and possible nationwide adoption of innovative techniques.

Department action: OPE has delayed implementation of its initiative to establish peer reviews because of staff limitations. It envisions using a case management approach. A study of the issue by an outside consultant is also under way, and IPOS plans to reevaluate the issue upon its completion.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Arrange for similar organizations to conduct periodic external peer review of the institutional review function.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Expand regional IRB use of microcomputer applications to include (1) automated file review work sheets; (2) use of Pell and FFELP downloads; (3) communications, including the transmittal of data and review products; and (4) any other institutional review applications that will promote more effective use of computer equipment.

Department action: (1) Regional review staff received notebook computers and software. All regions have systems support staff to provide technical assistance and training. (2) Regional staff received training on a new automated reimbursement system in 1994 and were issued manuals to

ensure staff understood the need to diminish the time between an institution's request for payment and actual payment. (3) A work group was formed to explore the use of new computer applications such as automatic refund calculations and standard paragraphs. It plans to pilot test and implement some of these applications in fiscal year 1996. (4) ROD hired a systems analyst who is working to resolve PEPS incompatibility issues. Once it is completed, a tracking and reporting system is expected to be put in place by OPE.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Provide sufficient computer training to all staff to ensure proficiency in the use of available computer equipment and software.

Department action: OPE stated it provided training on the use of the notebook computers and the installed software to regional reviewers during the summer of 1994 and to IPOS headquarters staff in early 1995.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: OPE should pilot test establishing staff specialist positions, such as legal counsel, computer specialist, reimbursement specialist, report resolution specialist, and statistician.

Department action: One computer specialist is being hired in each region and in headquarters. OPE said it is pilot testing the establishment of the other recommended positions except for statisticians in the regions. Headquarters will provide statistical support to the regions.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

The Secretary's Default Reduction Initiative—An Alternative Approach to Implementing Sanctions, MIR 93-07, September 14, 1993

Recommendation: The Department should designate hearing officials within OPE to conduct the informal hearings for schools appealing an intent to terminate or other administrative action.

Department action: OPE is discussing the merits of formal hearings with the Office of General Counsel (OGC) and OIG as well as the feasibility of establishing an appeals process for termination and fine actions within OPE. Additional research is under way.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Define, through written guidelines or regulations, the informal hearing process and the specific procedures for schools to follow to demonstrate how they have diligently implemented appendix D of the general provisions regulations for SFAP.

Department action: OPE's actions to address this recommendation will depend on the outcome of the pilot project discussed in the following recommendation's "Department action" section (see footnote 13).

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Notify all schools that have exceeded the cohort default rate thresholds defined by regulation that the Department is considering administrative action due to the school's high loan default rate. Included in this notice should be the specific guidance for the schools to follow to demonstrate how they have diligently implemented appendix D.

Department action: OPE initiated a pilot project to take termination actions against schools solely on the basis of their high default rates. Under the pilot design, OPE will require a small sample of schools to provide specific documentation of their implementation of appendix D, initiate termination action against those schools that do not comply, and

evaluate the success of the test. Termination notices were sent to two schools solely on the basis of their high default rates. As of February 1996, a decision is pending for one school and a hearing date has not yet been set for the second school. In addition, IPOS plans to act against a select group of schools that exceeded the threshold default rate for multiple years, that have not filed an appeal, and that have more than 30 borrowers. (See footnote 13.)

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: The regional review staff should work with the Compliance and Enforcement Division in evaluating documentation submitted by schools. The burden should be on the school to demonstrate that it acted diligently and successfully to reduce defaults, and the documentation submitted should be sufficient to support the school's assertion. If not, the school should be terminated.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Initiate intent to terminate proceedings against all schools that have exceeded the cohort default rate thresholds defined by regulation and could not demonstrate to the Department that they had diligently and successfully implemented appendix D.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

ED Should Prohibit Conflicts of Interest Between Guaranty Agencies and Affiliated Organizations, MIR 93-02, March 15, 1993

Recommendation: The Department should amend its regulations to prohibit guaranty agencies or their officers and employees from having any affiliation with an entity that is a participant or service provider in FFELP. Develop timetables for implementation. If necessary, seek legislative changes to accomplish this goal.

Department action: The Department plans to issue amended regulations addressing guaranty agencies' conflict of interest by December 1996.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Title IV Funding for Vocational Training Should Consider Labor Market Needs and Performance Standards, MIR 93-03, March 12, 1993

Recommendation: The Department should take the lead in convening an interagency task force to study different funding approaches for students enrolled in vocational training programs. Funding approaches should include the labor market needs of employers and success rates of schools in placing graduates.

Department action: OPE and OIG agreed that the State Postsecondary Review Entity (SPRE) regulations issued in April 1994 required SPREs to consider schools' responses to labor market needs in evaluating their performance. The administration's proposed Skill Grant Program for funding vocational training would also require participating schools to report job placement data to prospective students. (Due to the lack of federal funding, however, SPREs are not currently operating.)

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

OPE's Lender and Guarantee Agency Oversight Function Should Focus More on Audit Follow-Up, ACN 11-20015, December 1, 1992

Recommendation: Notify AFMS to establish accounts receivables totaling almost $1 million for the four guaranty agency audit reports described in this audit report.

Department action: The liabilities identified in the OIG report were fully paid.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Notify AFMS to establish an accounts receivables at the time it finalizes Program Determination Letters (PDL) and ensure that AFMS records the correct amount.

Department action: OPE implemented a process to establish accounts receivables whenever a PDL identifies a civil penalty or liability owed by a participating institution. OPE tracks progress quarterly.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Implement an audit recommendation follow-up tracking system to track audits until the Lender and State Agency Review Branch (LSARB) receives documentation verifying that auditees completed all corrective actions and paid amounts due the Department.

Department action: A database system for tracking audits was developed. It covers schools, lenders, and guaranty agencies and includes amounts owed that have not been recovered.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Review all prior guaranty agencies' audit reports and (1) identify all recommendations that auditees have not implemented and all audit-related accounts receivables not paid, (2) notify AFMS to establish accounts receivables for amounts not recovered, and (3) enter all incomplete corrective actions in the audit follow-up tracking system.

Department action: OPE reviewed prior PDLs, verified corrective actions for completeness, followed up as needed, and entered all incomplete corrective actions into the database system.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Notify OPE management that, because of the priorities of other duties and a lack of staff, LSARB can not perform all its delegated duties. In its notice to OPE management, LSARB should identify all those duties it cannot perform and their associated risk.

Department action: The previously described database system for tracking audits was implemented. GLOS sought an increase in staff to meet its responsibilities, including new ones resulting from the 1992 HEA amendments. OPE states that GLOS attempted to negotiate shifting oversight of guaranty agencies' reviews of lenders to IPOS.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop criteria for acceptable alternate guaranty agency review plans and for approval of the substitution or extension of lender and institution program reviews.

Department action: GLOS has developed criteria under which guaranty agencies can make substitutions. These include cases, for example, where schools have closed or merged or that were recently reviewed by another entity. Substitutions are agreed to in writing.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop a tracking system to ensure that guaranty agencies perform the required program reviews and monitor substitutions and extensions.

Department action: Because of changes and uncertainty in the guaranteed loan community, including the likely departure of many lenders and guaranty agencies from participation in FFELP, GLOS decided not to establish a tracking system. It is relying on the use of direct requests for approval of substitutions as previously discussed.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Adopt a policy requiring the return of the midpoint when the projected amount to be recovered is a range.

Department action: GLOS revised its policy to require the recovery of midpoint amounts.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Conduct an analysis of and maintain support for its decision when the amount sought for recovery varies from the midpoint of a projected range.

Department action: GLOS established a practice of requiring reviewers to maintain support for recovery amounts that vary from midpoint projections.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish a goal to elevate program reviews to the Assistant Secretary when LSARB cannot reach a decision within 6 months from the program review issue date.

Department action: GLOS does not believe implementing this recommendation is feasible because of the following: (1) Complex review issues are referred to headquarters for resolution before issuance of a review. OPE believes a 6-month limit for resolving issues may not be realistic in these cases. (2) Elevating unresolved issues to the Assistant Secretary is unlikely to improve the timeliness of decisions because the appeal level would move to the Secretary, requiring additional reviews and clearances.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

ED Needs to Change the Legislative Definition of Loans in Repayment, MIR 92-13, September 4, 1992

Recommendation: The Department should request the Congress to modify the definition of loans in repayment in HEA or allow the Department to define loans in repayment.

Department action: OPE initiated an effort to consult with appropriate Department officials to determine if a recommendation should be made to the Secretary to propose a statutory amendment to HEA as part of its 1997 reauthorization. However, because of uncertainty about the future of FFELP and efforts to reduce regulatory burdens, the effort was set aside pending future developments. OIG does not believe OPE has provided sufficient documentation of its activities.

OIG's conclusion about status of action: Planned

OIG's conclusion about whether the action generally addressed the recommendation: No

Loan Servicers for the Guaranteed Student Loan Programs (GSLP) Need to Be Better Controlled to Save ED Millions in GSLP Losses, MIR 92-12, August 19, 1992

Recommendation: Require FFELP servicers to report to the Department their FFELP portfolios by size and lenders (report should match quarterly interest billing reports). The reporting should also identify each guaranty agency being serviced and identify any other computer time-sharing with FFEL lenders.

Department action: The Department issued regulations on April 29, 1994, that incorporate much of the recommended actions but make no reference to computer time-sharing.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish regulations that specifically require FFELP servicers to provide Department representatives timely access to all FFELP portfolio information, records, operations, and personnel. This should include the servicer's FFEL loan servicing portfolio in total, not just a single lender or guaranty agency, or loan portfolio that involves computer time-sharing.

Department action: The Department published a Notice of Proposed Rulemaking on February 17, 1994, that incorporates the recommended actions. The final rule was published on April 29, 1994.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require FFELP servicers to provide and maintain documentation in support of due diligence claims for delinquent borrowers. This should specifically include support for computer-generated records. In addition, the Department should require servicers to develop and apply adequate internal controls over due diligence and their documentation of delinquent borrowers. The lenders being serviced should be required to substantiate on a timely basis that their servicers are in compliance.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Allow the Department to apply the limitation, suspension, and termination process to FFELP servicers. In addition, allow the Department's program review staff to fine servicers who knowingly violate FFELP laws and regulations.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Improving Documentation Requirements for Determining Eligibility for Student Financial Assistance Programs, MIR 92-11, July 29, 1992

Recommendation: Require schools to maintain a copy of each student's high school diploma or General Education Degree on file. In cases where such documentation is unavailable or cannot be provided by the student, the Department should require that the student be admitted to the school only under the Department's ability-to-benefit requirements.

Department action: OPE developed a requirement that such documentation be maintained as part of a Notice of Proposed Rulemaking for ability-to-benefit standards. However, OMB rejected the final regulations in November 1994, and the Department did not pursue the matter further.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Stricter Standards Needed for the Granting of Forbearances, MIR 92-10, June 30, 1992

Recommendation: Promulgation of a mandatory requirement that defines for what cumulative length of time consecutive and nonconsecutive forbearances can be granted and how often the borrower's eligibility for a forbearance should be reevaluated.

Department action: OPE believes that 1992 HEA amendments and subsequent regulations addressed this recommendation. Basically, the statute allows for forbearance up to 3 years depending on the borrower's debt-to-income ratio, and the regulations allow for individual forbearance periods up to 1 year. OIG believes regulations proposed by the Department regarding forbearance address its recommendation that eligibility be reevaluated.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Guidance, in the form of a "Dear Colleague" letter, should be issued to clarify the following expectations: (1) Detailed documentation is to be retained to fully support each forbearance. If the forbearance is based on financial hardship, determination and approval of the hardship should be clearly documented in the file; and (2) Borrowers are to be provided an option to select (within the latitude provided by the regulations) the forbearance terms that best meet their needs.

Department action: The Department issued regulations specifying borrowers' rights to forbearance options and lender documentation requirements. In consultation with the student aid community, OPE is developing a standard forbearance form that will ensure borrowers are aware of their forbearance options.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Effectiveness of the Office of Postsecondary Education's Effort to Collect Perkins Loan Excess Cash, MIR 92-08, April 1, 1992

Recommendation: Determine excess cash in the manner described in the "Dear Colleague" letters to schools and request the schools to return the funds.

Department action: OPE identified 641 schools with about $53 million in excess cash in accordance with the recommendation and completed collection of the excess in April 1994.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Complete the planned initiatives to more aggressively collect excess cash, including (1) imposing sanctions on nonrespondents; (2) requiring better coordination within the Department to promptly notify the Division of Program Operations and Systems when excess cash is identified or returned; and (3) initiating fines or other administrative action for not returning excess cash.

Department action: In response to (1) and (3), OPE developed a system of imposing fines if a school does not respond to the Department's demand for excess cash refunds after a certain time period. In response to (2), OPE revised the program review guide to include an examination for excess cash in Perkins Loan funds and established a process to notify the Campus-Based Programs Systems Division of schools where excess cash has been found.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Ask OGC to review the HEA provisions and advise if any impediment exists to offsetting excess cash against federal capital contributions (FCC).

Department action: OGC identified provisions of the Department's regulations that permit such offsets. However, a provision in the 1992 HEA amendments requires that any collectible excess cash amounts be reduced

by the amount of FCC received in the last 2 completed award years. OPE believes this reduces the amount of excess cash the Department can collect.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Notify the Financial Management Service (FMS) to establish an account receivable for the estimated excess cash for each school that fails to respond to the "Dear Colleague" letter within 60 days.

Department action: OPE incorporated this step as part of the process for notifying the Campus-Based Systems Division of schools with excess cash.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

About $300 Million in Guaranteed Student Loans and Pell Grants Will Be Authorized for Students With Defaulted Loans for the 12 Months Ending June 30, 1992, MIR 92-07, March 19, 1992

Recommendation: Take immediate action to incorporate tape dump default data into the screening system in place at the central processor.

Department action: The Department implemented the Guaranty Agency Default Match in the central processing system in July 1992. This match identified applicants for title IV assistance who were listed as being in default on another title IV loan in the Department's tape dump. A comment was printed on the student aid report sent to the applicant's school(s) advising them of the default and seeking confirmation of resolution.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Modify the current screening process to more appropriately identify applicants that have previously defaulted on a student loan and not authorize them further student financial aid funds.

Department action: The Department is conducting the title IV default match with Social Security number and date of birth. This match is used to identify applicants that have defaulted on any student loans assigned to the Department for collection.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Owners of Corporate Proprietary Schools Need to Be Held Personally Liable for Title IV Program Losses, MIR 92-06, March 16, 1992

Recommendation: Redraft the program participation agreement to require owners of corporate proprietary schools to personally guarantee program-related liabilities.

Department action: The Department issued final regulations in April 1994 defining circumstances under which school owners responsible for program-related liabilities would be allowed to continue to participate in the program.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop policy and implement procedures to ensure that program-related liabilities are aggressively pursued and collected. At a minimum, the procedures should require that all schools participating in the title IV program report to the Department, on at least a yearly basis, their current title IV refund liabilities and certify the accuracy of such statements as a prerequisite to further program participation.

Department action: A contract was awarded to conduct initial reviews of school financial statements upon their annual submission. The 1992 HEA amendments also require annual compliance audits of schools.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

ED Needs to Strengthen Student Loan Cure Procedures, MIR 92-05, March 13, 1992

Recommendation: Amend the regulations to allow loans with major due diligence violations to be cured only if lenders obtain either three full monthly payments or a signed repayment agreement plus two full monthly payments.

Department action: The Department included a bulletin it previously issued on cure procedures in new regulations it issued on December 18, 1992. When it was first issued in 1988, this bulletin provided that a loan could be considered cured upon receipt of one monthly payment or a signed repayment agreement from the borrower. The 1992 regulations did not change this requirement.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Amend the regulations to limit the time period during which a lender can cure a loan.

Department action: In the December 1992 regulations, the Department revised its bulletin on cure procedures to limit the time a lender has to cure a loan to 3 years for any loans that lose their reinsurance status on or after December 1, 1992. OIG concluded that any time limit over 1 year would lead to unacceptably high default rates unless additional measures were taken to prevent higher defaults.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Amend the regulations to limit the proportion of loans that a lender can cure.

Department action: The Department did not issue any provisions in its cure bulletin addressing this recommendation. Negotiated rule-making sessions, held to develop the cure bulletin, did not develop a consensus on this issue. The Department decided further efforts would not be productive.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Use these recommendations in any cure procedures that are developed for guarantee agencies.

Department action: Upon completion of the negotiated rule-making sessions previously mentioned, the Department believed it had achieved as much as possible and did not wish to further address the cure procedures. Department officials also believe that lenders have incentives to promptly cure loans to avoid higher servicing costs and loss of interest payments and that the removal of a statutory provision that limited its ability to refuse to cure loans under certain circumstances has given the Department sufficient authority to impose these limitations.

OIG, however, believes that stricter requirements are necessary to convince lenders that the federal government is serious about enforcing its rules for collecting guaranteed loans, and it asserts that the Department will incur about $150 million in excess costs under current cure procedures.

OIG's conclusion about status of action: None taken

OIG's conclusion about whether the action generally addressed the recommendation: No

The Office of Student Financial Assistance Did Not Assure That All Institutions Submitted Audit Reports or That It Recovered All Misspent Funds, ACN 11-00010, February 6, 1992

Recommendation: Identify and refer for termination all schools with overdue audit reports, starting with those most overdue and with the most title IV funds at risk.

Department action: OPE has in place a system of referring all schools with overdue audits to the Compliance and Enforcement Division (CED) for administrative action, including termination. The Audit Resolution Branch (ARB) is in the process of notifying schools with missing audits by letter of the requirement to submit one and that action will be taken if they do not do so. OPE statistics show that many termination and fine actions have been taken against schools, including 54 terminations in fiscal year 1992.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop controls to ensure that all audit reports are entered into the Institutional Data System (IDS) for all institutions covered by each audit report.

Department action: ARB stated it had implemented the recommended controls. However, on the basis of a follow-up review, OIG does not believe the controls are sufficient (see footnote 13).

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Develop controls to ensure that when audit reports are overdue, institutions are notified and appropriate actions are taken.

Department action: ARB adopted the recommendation and modified IDS to track overdue audits.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: ARB should reconcile its audit appeals list with the FMS accounts receivable report and submit an amended audit clearance document (ACD) to FMS for all appeals that were decided.

Department action: ARB submitted an amended ACD to FMS for all decided appeals. It also obtains a signature from FMS personnel verifying receipt of amended PDLs or ACDs.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Implement procedures to require ARB reviewers to reconcile the audit appeals list with the FMS accounts receivable report each quarter. Submit an amended ACD to FMS within 5 days for all appeals that it settles, or an administrative law judge decides so that FMS can resume collection actions.

Department action: ARB identified and reconciled appeals versus follow-up cases and also reconciled fines written off or adjusted in the prior administration. Pending informal fines were referred to CED for action. ARB has adopted a policy of immediately referring to CED cases in which audits are submitted late.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Establish one fine schedule for all violations, that is, significant audit deficiencies, recurring audit deficiencies, and failure to comply with the biennial audit requirement. Also, the Division of Audit and Program Review should establish a minimum fine amount and progressively increase the amount of the fine up to the full regulatory authority of $25,000 per violation.

Department action: CED has developed a formal fine schedule.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Eliminate the practice of proposing informal fines and give ARB the authority to assess formal fines.

Department action: ARB has taken steps to eliminate informal fines and establish formal referral procedures to notify FMS. Appeals are handled in CED. ARB implemented this process for late or missing audits and expects to have the entire process implemented in the spring of 1996.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish controls to ensure that ARB promptly notifies FMS to establish accounts receivable when fines are assessed.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Implement an appeal process for fines.

Department action: Same as action for previous recommendation.

OIG's conclusion about status of action: In progress

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Review all audits within 30 days of report issuance and request the schools to provide the auditors with all supporting documentation for unsupported costs. Notify the schools that if they do

not provide the information to auditors and have auditors report the results of their review by the specified date, ARB is required to disallow the costs.

Department action: OPE established a process of assigning audits to staff for the type of review recommended within 5 days of receipt and has hired additional staff to conduct these reviews.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Accept only audited documentation as support for expenditures and disallow all unsupported costs when the schools have not provided the auditors with satisfactory supporting evidence.

Department action: ARB established a policy of requiring schools to refund amounts for unsupported costs unless they provide documentation verified by their auditors. When a liability is $25,000 or more, such verification must be provided on the auditor's stationery within 45 days of the time the school receives the program determination report.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Consider waiving the student financial aid biennial audit requirement for schools that received less than $25,000 in annual funding. Also, increase the waiver up to $100,000, after consultation with OMB.

Department action: ARB has occasionally modified the audit requirement for schools receiving small amounts of federal student aid funds, allowing these schools to submit audits every 3 to 4 years. According to the Department, existing statute and regulations do not allow it to waive the audit requirement entirely. At this time, the Department indicated no plans to raise the threshold to $100,000.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Ensure that ARB procedures to calculate the amount of misspent funds for all disallowances with error rates over 10 percent are implemented by all reviewers.

Department action: ARB established a process to project audit liabilities to the total population in cases where audit error rates exceed 10 percent. This included supervisory review.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

ED Should Act to Reduce Interest and Special Allowance Costs for Cancelled Student Loans, MIR 91-10, September 3, 1991

Recommendation: Amend regulations to provide that, for a school with a loan cancellation rate above 10 percent, the guaranty agency may not guarantee a loan and lenders may not disburse the loan check until the student has attended class for 30 days. As an alternative, the amount of interest and special allowance paid to the holders of canceled FFELP loans will depend on the cancellation rate of the school the student attends.

Department action: The 1992 HEA amendments require that for loans made on or after October 1, 1992, lenders may not charge interest or receive interest subsidies for loans in which disbursement checks were not cashed or electronic funds transfers not completed. In addition, lenders may not receive interest on first disbursements of FFELs for any period before 10 days of the disbursement of a loan by check, and 3 days before the disbursement of a loan by electronic funds transfers. OPE issued guidance to implement these provisions.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: The regulations should be amended to provide that the original lenders cannot sell FFELs to the secondary market until the checks are cashed.

Department action: The 1992 HEA amendments prohibit lenders from selling or transferring a promissory note for any FFEL until its final disbursement has been made. OPE issued guidance and regulations to implement this provision.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Improvements Needed to Strengthen Guarantee Agency School Reviews, MIR 91-09, June 19, 1991

Recommendation: Establish minimum standards in each of the standard areas applicable to guarantee agency reviews.

Department action: OPE included these standards in the revised school site review guide for guaranty agencies issued in July 1992.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Revise the school review guide to improve the comparability and usefulness of the school review reports.

Department action: OPE revised the school site review guide used by guaranty agencies to incorporate specific items suggested by OIG. The revised guide was issued in July 1992.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Implement the proposed change to school review selection criteria as soon as possible.

Department action: The Department issued regulations in December 1992 that outlined new school review selection criteria for guaranty agencies.

OIG's conclusion about status of action: Complete

OIG's conclusion about whether the action generally addressed the recommendation: Yes

Status of Actions on GAO Recommendations

GAO issued eight reports with recommendations for improving the management of student financial aid between April 1992 and July 1995. The status of the Department's actions is based on information that our staff developed. The following identifies the eight reports and describes the reports' recommendations, Department actions taken, and our conclusions about the actions' status and about whether the actions generally addressed the recommendations.

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995)

Recommendation: Take actions to improve the accuracy and completeness of student financial aid data, such as continuing to screen data entered into the National Student Loan Data System (NSLDS) to ensure a consistent format and testing the accuracy and validity of data in NSLDS.

Department action: The Department is carrying out the recommendation. In addition, it is formulating and enacting plans to ensure the accuracy, completeness, and timeliness of NSLDS data.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Analyze student aid data more closely to identify patterns of noncompliance with federal requirements, such as following up on students identified as ineligible in the data matches, and take appropriate corrective actions.

Department action: The Department is implementing the recommendation. Specifically, in August 1995, it established a project team to review its application system and NSLDS data to ensure that ineligible students are prevented from receiving new loans and grants.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Federal Family Education Loan Information System: Weak Computer Controls Increase Risk of Unauthorized Access to Sensitive Data (GAO/AIMD-95-117, June 12, 1995)

Recommendation: Develop and implement a computer security administration program to oversee the Federal Family Education Loan Program (FFELP) information system's computer security control operations.

Department action: In August 1995, the Office of Postsecondary Education's (OPE) Computer Security Office was given responsibility for providing computer security oversight of FFELP. In conjunction with this action, in September 1995, broad institutional policies and procedures that were part of OPE's Information Technology Security Manual were adopted to cover FFELP.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop and require the FFELP information system's contractor to implement policies and procedures to limit access authorizations for system users to only those computer programs and data needed to perform their duties and to approve the creation of special user identifications.

Department action: The Department required its contractor to place sensitive system data sets in a restricted library and sensitive utility programs in a controlled library as of April 1, 1995. In addition, the FFELP Security Officer has performed periodic reviews to ensure that inappropriate changes were not made to the sensitive data sets. Also, it formalized the process to create special user identifications.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Identify sensitive data files and programs and monitor successful access to them, including access by users having special access privileges.

Department action: On April 28, 1995, the Department implemented security procedures to monitor/review FFELP system access by system programmers. In addition, on September 30, 1995, it procured a new audit software product to help detect unauthorized changes to FFELP relational databases.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require the FFELP information system's contractor to devise controls to ensure that only approved and tested changes are made to the system software.

Department action: In April 1995, the Department reemphasized to the contractor the ongoing requirement that all proposed system software changes be documented, tested, and approved before implementing changes. Failure to adhere to this will result in sanctions being imposed on the contractor. In addition, the Department started to provide contractor oversight through the weekly configuration control board meetings.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994)

Recommendation: Perform periodic analyses to determine whether lenders are submitting billing reports promptly, within 90 days after the end of the quarter. These analyses should include follow-up procedures with individual lenders who have not promptly submitted billing reports.

Department action: The Department has, for the past 3 years, deactivated lenders that failed to submit billing reports for four quarters. Effective December 1994, the Department further reduced the billing requirement to two quarters. Lenders and their guaranty agencies are notified of the deactivation after nonreceipt of the lender's billing for two quarters. To be reactivated, lenders must request their guaranty agency to contact the Department and provide documentation of the reason for reactivation.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Clearly identify security responsibilities and oversight for the Department's general ledger system, including appointing a security officer with responsibilities for the overall security of the system.

Department action: The Department has hired a security officer responsible for the overall security of the general ledger system.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require and ensure that security administrators and supporting technical staff who are responsible for the general ledger system have security training.

Department action: Staff officers responsible for the general ledger system were given 2 days of training in August 1995. Additional training is planned during 1996.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994)

Recommendation: Improve the standards and processes used to determine the eligibility of foreign medical schools.

Department action: The Secretary established an advisory panel of medical experts, the National Committee on Foreign Medical Education and Accreditation (NCFMEA), to carry out its statutory mandate to determine whether the approval and accreditation standards and processes used by foreign countries are comparable with those in the United States. On April 28, 1994, regulations were issued that established standards that foreign medical schools must meet to participate in FFELP. The Department expects that the regulatory standards will be implemented during a recertification process for foreign medical schools as soon as the comparability determinations are made by NCFMEA and the policy decisions presented in the paper mentioned above are finalized. Until these actions are finalized, an assessment cannot be made.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish policies and procedures to help ensure that FFELP loans are made only to students attending medical programs that meet the Department's standards.

Department action: The Department is drafting a position paper for the Assistant Secretary for Postsecondary Education's approval of the Department's process for recognizing foreign medical schools. Until the new process is approved, an assessment cannot be conducted.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Require that foreign medical schools demonstrate that they have formal affiliation agreements with the facilities they use to train their students and their training facilities are equivalent to those that educate U.S. medical students.

Department action: The Department is drafting a position paper for the Assistant Secretary for Postsecondary Education's approval of the Department's process for recognizing foreign medical schools. According to Department officials, the new application requests information that will ensure the Department's regulatory standards are met. Until the new process is approved, an assessment cannot be conducted.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Establish criteria for triggering site visits to schools' campuses and clinical training facilities to review the schools' operations and facilities and verify information.

Department action: The Department has developed and implemented criteria to trigger site visits to foreign medical schools. Since that time, the Department has conducted several site visits and is currently taking action to withdraw the eligibility of some of these schools.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish formal policies and procedures for the process of approving foreign medical schools.

Department action: The Department will develop internal procedures for the review and approval of foreign medical schools. A revised application process for these schools' participation in title IV programs will be developed. Until the new application process is approved, an assessment cannot be conducted.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Develop appropriate guidance for lenders and guaranty agencies through a weekly status report listing all changes in schools' status.

Department action: The Department provides notification and guidance to lenders and guaranty agencies through a weekly status report listing all schools' status.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Ensure that approving officials are knowledgeable and staff are properly supervised.

Department action: The Department created a separate team responsible for approving foreign schools. A determination cannot be made without further work to assess staff responsibilities and supervision.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Require applicants for loans to identify when they plan to attend a foreign medical school.

Department action: The Department disagreed with identifying foreign medical schools on the student's application, indicating that it will identify foreign medical schools through the school application process and assign an OPE number with the addition of a suffix to indicate a medical school.

GAO's conclusion about status of action: None taken

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: In cases of schools not cooperating with the Department in providing information, exercise its authority to prevent or terminate their continued eligibility in FFELP.

Department action: The Department has regulations stating that the failure of a foreign medical school to provide, release, or authorize release of information required will render the school ineligible to apply for participation in FFELP.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Share information that the Department obtains on foreign medical schools with state medical boards for their use in evaluating the education of licensure applicants.

Department action: The Department plans to provide the Federation of State Medical Boards (FSMB) a list of approved foreign medical schools and the countries where they are located following the September 1996 NCFMEA meeting.

GAO's conclusion about status of action: Planned

GAO's conclusion about whether the action generally addressed the recommendation: No

Recommendation: Work with FSMB to determine that information that the Department gathers would be most useful to the state boards.

Department action: The Department has begun to determine what information it believes FSMBs need and will provide that information when its work is completed. Until the Secretary approves the new process, an assessment cannot be conducted.

GAO's conclusion about status of action: Planned

GAO's conclusion about whether the action generally addressed the recommendation: No

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 9, 1993)

Recommendation: Develop a comprehensive strategy for determining the accuracy of information reported on lenders' quarterly billings.

Department action: In March 1995, the Department's OIG issued its lender audit guide, which requires an independent public accountant (IPA) to perform an examination-level attestation relative to the lender management's assertions about certain compliance requirements concerning information reported on its quarterly billings.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Monitor and follow up with lenders whose quarterly billings fail to meet the Department's internal automated edit checks and reasonability tests.

Department action: The Department developed reasonability edits in FFELP subsystems to compare billing data reported on the Department's Form 799 and data submitted to NSLDS. Once the edits and level of reasonableness are finalized in April 1997, the Department will analyze the variances and forward the results to the Guaranty Agency and Lender and Oversight Service (GLOS) for follow-up.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop and implement procedures for converting major automated systems, including a requirement that parallel systems be run for an appropriate time period, to ensure that new systems are properly processing program data.

Department action: The Department directed that adequate time be given to testing system conversions and that all contracts include a parallel systems testing period.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993)

Recommendation: Enhance management leadership throughout the Department and strengthen agency culture.

Department action: The Secretary has initiated efforts to build a spirit of teamwork among political and career officials and to encourage a free flow of ideas on how best to address management problems in the Department.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Create, for information, financial, and human resources management, strategic visions and strategic plans that are integrated with the Department's overall strategic plans and coordinated with the Department's comprehensive strategic management process.

Department action: The Department (1) implemented its strategic and tactical plans for information technology resources, (2) established a committee to address problems in data collection and dissemination, and (3) refined its financial management strategic plan.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AIMD-93-20, Mar. 16, 1993)

Recommendation: Require that guaranty agencies and lenders annually provide the Department an IPA's positive attestation on the claims for payment submitted to the federal government, and the basis for such attestation, including an opinion on the adequacy of internal controls over such claims.

Department action: In March 1995, the Department's OIG issued its lender audit guide, which requires an IPA to perform an examination-level attestation relative to the lender management's assertions about certain compliance requirements concerning information reported on its quarterly billings. OIG is updating the guaranty agency audit guidance. This update is expected to be completed by June 1996 for implementation on fiscal year 1996 single audits. A separate guaranty agency audit guide will not be issued by the Department.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Test billings from guaranty agencies and lenders as part of the Department's internal reviews.

Department action: A manual process has been developed matching billing data reported by guaranty agencies with data reported in NSLDS. The Department is currently monitoring the top five guaranty agencies. In addition, a task order has been completed that put in place the capability for the Department to match lender billings with data reported in NSLDS. The Department anticipates completing the entire project by April 1997.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require staff to follow up on questioned costs and other amounts owed on the basis of reviews of guaranty agencies and lenders within a designated time period from the time findings are reported.

Department action: The Department is assessing its efforts to follow up on questioned costs and other amounts owed to the Department.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Study the feasibility of requiring guaranty agencies to standardize their FFELP loan accounting systems.

Department action: The Department concurred in the goal of this recommendation. It believes, however, that because some guaranty agencies are departments within state governments and must follow state accounting procedures, to require the guaranty agencies to use a standard loan accounting system would not be feasible. In addition, with the current number of guaranty agencies, this recommendation is not practical. However, if the number of guaranty agencies were to be reduced to a manageable level, the Department would pursue the implementation of standardized accounting systems.

GAO's conclusion about status of action: None taken

GAO's conclusion about whether the action generally addressed the recommendation: No

---

Recommendation: Reassess and, if appropriate, adjust NSLDS implementation date after completion of a detailed system design.

Department action: NSLDS' design was completed, and the system was implemented in November 1994.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Develop written procedures detailing the methodology to be used to derive the estimate of loan guarantee subsidies

and requiring that each year's estimate be fully documented and approved by the Department's chief financial officer.

Department action: During 1993, the Department developed written procedures detailing the methodology used to derive the estimate of loan guarantee subsidies.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Establish and maintain subsidiary ledgers for FFELP.

Department action: The Department issued a task order to the FFELP contractor to develop auditable subsidiary ledgers. However, the technical and business proposals were unacceptable to the Department. Consequently, the Department modified its approach to buy a commercial off-the-shelf package that will considerably reduce the cost of the effort. The Department anticipates completing this effort in December 1997.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

---

Recommendation: Develop procedures to ensure that the general ledger is periodically reconciled to subsidiary records maintained by OPE.

Department action: The Department will develop and implement reconciliation procedures to coincide with its revised approach to purchase a commercial off-the-shelf software package for FFELP subledger development. It expects to complete efforts by December 1997.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Establish an acceptance testing group responsible for independently testing FFELP application system changes before implementation.

Department action: In March 1994, the Department established acceptance testing groups.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Implement procedures to ensure that internal control reviews and risk assessments of the FFELP information systems are performed periodically as required by OMB Circulars A-123, Internal Control Systems; A-127, Financial Management Systems; and A-130, Management of Federal Information Resources.

Department action: In June 1994, the Department developed procedures to ensure that all FFELP systems are reviewed and risk assessments performed as required by regulations.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Implement controls described in the Department's Automated Data Processing Technical Controls Handbook to ensure that all data received from guaranty agencies and lenders are consistent and accurate.

Department action: The Department implemented controls described in the Technical Controls Handbook to assist in ensuring that all data received from guaranty agencies and lenders are consistent and accurate.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Enhance the existing computer disaster recovery plan to include contingency options at Department headquarters and regional offices regarding key original documents.

Department action: The Department has established an improved disaster recovery plan to include having key documents sent directly to the Department's information system contractor for storage and requiring that all key documents be photocopied before being sent to the contractor.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Require that the security administrator and appropriate supporting technical staff have formal training in the specific operating systems and access control software used by FFELP contractor.

Department action: In September 1994, the FFELP security administrator completed training on both the operating system and access control software used by the FFELP contractor.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Develop a comprehensive plan for revising the role of guaranty agencies and the manner in which they are compensated.

Department action: The continuance of the Federal Direct Student Loan Program, which has allowed the Department to implement direct loans to student borrowers, is being assessed by the Congress. If fully implemented, the need for guaranty agencies would diminish. The Department is also reviewing the role of guaranty agencies in the current environment and has a test case in progress involving one guaranty agency. Using this model, guaranty agencies will be compensated for efforts to avoid defaults, particularly in the preclaims area. This experiment should be in place by June 1996, pending approval by OMB. If successful, the Department plans to expand it to other guaranty agencies.

GAO's conclusion about status of action: In progress

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992)

Recommendation: Develop a departmentwide information resources management (IRM) strategy and plan that is linked to overall Department goals and objectives.

Department action: The Department prepares annual departmentwide strategic plans and tactical IRM plans. The Department's plans are blueprints that support the improvement and development of information systems and improve the capabilities employees require to carry out the Department's mission and to achieve its goals.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Recommendation: Direct the senior IRM official to develop, in conjunction with the Department's key operating components, an effective departmentwide information planning process that meets federal guidance.

Department action: The Department established and activated the Information Management Committee and combined this effort with its strategic planning process. The committee developed a survey to collect the data required to create a departmental database and established and expanded its contacts with the national interest groups concerned with the problems of data element standardization and the electronic transfer of information. These activities will continue indefinitely.

GAO's conclusion about status of action: Complete

GAO's conclusion about whether the action generally addressed the recommendation: Yes

Comments From the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

JUN 24 1996

Carlotta C. Joyner
Director, Education and
Employment Issues
United States General Accounting Office
Washington, DC 20548

Dear Ms. Joyner:

This letter responds to your June 6, 1996 request for comments on the General Accounting Office (GAO) draft report Department of Education: Status of Actions to Improve the Management of Student Financial Aid (GAO/HEHS-96-143). The draft report concludes that the majority of the Department's actions have addressed most of the recommendations. Specifically, the draft report noted that the Department has made significant progress in initiating actions that addressed over 90 percent of the 205 recommendations to improve management of student financial assistance (SFA) made by the Senate's Permanent Subcommittee on Investigations (PSI), the General Accounting Office (GAO) and the Office of Inspector General (OIG) during the April 1991 through July 1995 period covered in your report. We believe this statistic fully demonstrates our commitment to provide students access to high-quality postsecondary education while simultaneously ensuring the integrity of the federal student aid program.

However, we also believe that it is important to not only identify these actions, but to also identify a few key measurements as the Committee looks for improvements and accomplishments that can be attributed to changes made in the management of the SFA Programs. For example,

--The national cohort default rate declined from 22.4 percent in the 1990 cohort to 11.6 percent in the 1993 cohort;

--Reinsurance payments have declined more than 30 percent, from $3.5 billion in 1991 to $2.4 billion in 1995, despite a 50 percent increase in the volume of loans in repayment during the same period; and

--From fiscal year 1992 through the end of fiscal year 1995, collections increased by 190 percent (from about $1 billion to $2 billion annually). This is due in large part to the reengineering of SFAP's debt collection system which provided improved customer service for the collection process.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-5100

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Also, because the vast majority of the recommendations that are mentioned in the report deal with the oversight process, we would like to identify some specific accomplishments and ongoing initiatives in this area. We believe that the following oversight efforts, coupled with tougher standards, will continue to build upon the accomplishments of the last few years and address issues identified in PSI's and other reports.

Enhanced eligibility and certification efforts

- To improve the eligibility and certification process for the approximately 7,000 institutions participating in Title IV programs, certification standards have been strengthened. As a result, the percentage of initial applications for certification that are denied has increased substantially, from 16.6 percent in 1990 to 30.5 percent in 1992 to nearly 40 percent in 1995.

- To improve the effectiveness of accrediting agencies that evaluate institutions, the Department is working with the agencies on a number of fronts designed to strengthen their oversight in statutorily mandated areas. As a result, the Department has witnessed a substantial improvement of accrediting agencies evaluations of institutions.

- To strengthen accountability, institutions must meet additional standards of financial responsibility and administrative capability. Institutions of questionable capability to administer Title IV programs are now placed on provisional certification and are subject to a system of expedited administrative review. As a result, the Department can act quickly to remove schools from participation, should problems arise.

- To better ensure that institutions that have previously posed concerns for the Department meet financial standards, criteria have been developed to identify potentially at-risk institutions. Using this approach, last year more than 20 percent of these potentially at-risk institutions were provisionally certified and another 10 percent were rejected for certification altogether.

Increased monitoring efforts

- To proactively deter student aid application fraud, the Department performs a number of database matches for each student aid application, and many have recently been enhanced or introduced to strengthen oversight in this area, such as, the National Student Loan Data System (NSLDS). As noted in the report, since 1995, NSLDS preacreening data matches alone have identified approximately 125,000 prior defaulters among students applying for additional financial aid, possibly preventing as much as $310 million in future defaults and denying about $75 million in Pell Grants to ineligible students.

- Project EASI (Easy Access for Students and Institutions) has been initiated to reengineer the SFA delivery system working with a diverse group of government, business and education leaders to ensure that the latest in technological advances are employed. The goals of this effort are to improve customer service and reduce operational costs, while improving accountability and providing more current information needed to manage the programs.

Currently, the Department also is discussing a very different approach to monitoring and oversight that will better utilize our available resources. The approach includes providing regulatory relief for institutions, where appropriate; statutory relief, where necessary; and improvement of administrative processes, wherever possible. At the same time, we are increasing our oversight of institutions that have experienced problems in managing our programs and that pose significant risks to Federal funds.

Further, we are focusing on further improving our oversight of institutions that require closer monitoring through the development of a risk-analysis model that will allow us to target oversight resources on institutions with poor performance records. The Department also will re-align staff with oversight responsibilities along case management lines, whereby a team of employees is responsible for all oversight activities for an assigned group of institutions. We believe that this approach will enable us to manage the program more effectively and efficiently.

Regarding the issues identified in the report, where we do not agree with a recommendation, we believe our justifications are supportable and fairly represented. Also, because of the nature and number of issues identified by PSI, GAO and the OIG, we sometimes found it necessary to prioritize the actions to be taken to fulfill our goal for oversight reform and best utilize our available resources; but we have attempted to address all the issues raised in the various reports.

It also should be noted that it was impossible to make some of the changes recommended in these reports without changes in legislation. In addition, several legislative actions that would have addressed some of the open issues in the report are still pending or are being held up in the legislative process. We will continue to address these open issues, as appropriate, during the next HEA Reauthorization opportunity.

Again, we appreciate the opportunity to comment on the report and the efforts of your staff to provide a comprehensive report on these recommendations. If you have any questions regarding our comments, please feel free to contact Linda Paulsen at 708-4664.

Sincerely yours,

David A. Longanecker

Staff Acknowledgments

The following team members also contributed to this report: Scott M. Berger and Joel R. Marus, Evaluators; Julian P. Klazkin, Senior Attorney; and Laurel H. Rabin, Communications Analyst.

Related GAO Products

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/T-HEHS-95-1995, July 12, 1995).

Federal Family Education Loan Information System: Weak Computer Controls Increase Risk of Unauthorized Access to Sensitive Data (GAO/AIMD-95-117, June 12, 1995).

High Risk Series: Student Financial Aid Programs (GAO/HR-95-10, Feb. 95).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994).

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 9, 1993).

Direct Student Loans: The Department of Education's Implementation of Direct Lending (GAO/HRD-93-26, June 10, 1994).

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive faxed-in copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER

BEST COPY AVAILABLE